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ABSTRACT

As part of the "Assessing the New Federalism" project monitoring and assessing the devolution of social programs from the federal to the state and local levels, this report examines the child care providers upon whom the child care subsidy system depends. The report relies on data collected from subsidy agency administrators, key child care experts, child care caseworkers, parents, and providers in 17 sites across 12 states. The report focuses on subsidy policies and practices that can shape the experiences of providers serving subsidized children, including how much providers are paid and how providers experience the subsidy system. The report's findings suggest that a number of policies and practices can affect how much child care providers receive and the ease of their interactions with the subsidy system. In some cases, policies and practices appeared to undercut the amount providers received or made it more difficult for providers to interact with the subsidy system. Respondents suggested that these issues may also ultimately affect the willingness and ability of providers to participate in the subsidy system, thereby affecting whether children receiving subsidies have equal access to the range of providers available to nonsubsidized children. These policies and practices may have implications for the financial stability of providers and the quality of care they provide. Although a range of more supportive practices was also identified, the report notes that implementing these strategies is challenging within the current context of inadequate funding for children. The report's three appendices describe the study methodology, list the provider focus group participants, and compare the subsidies received by a hypothetical provider under various scenarios. (Contains 68 notes and 24 references.) (KB)

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Essential but Often Ignored
Child Care Providers in the Subsidy System

Gina Adams
Kathleen Snyder
The Urban Institute

with the assistance of
Kathryn Tout
Child Trends

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Assessing the New Federalism
An Urban Institute Program to Assess Changing Social Policies

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This report is part of the Urban Institute's *Assessing the New Federalism* project, a multiyear effort to monitor and assess the devolution of social programs from the federal to the state and local levels. Alan Weil is the project director. The project analyzes changes in income support, social services, and health programs. In collaboration with Child Trends, the project studies child and family well-being.

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About the Series

Assessing the New Federalism is a multiyear Urban Institute project designed to analyze the devolution of responsibility for social programs from the federal government to the states, focusing primarily on health care, income security, employment and training programs, and social services. Researchers monitor program changes and fiscal developments. In collaboration with Child Trends, the project studies changes in family well-being. The project aims to provide timely, nonpartisan information to inform public debate and to help state and local decisionmakers carry out their new responsibilities more effectively.

Key components of the project include a household survey, studies of policies in 13 states, and a database with information on all states and the District of Columbia, available at the Urban Institute's web site. This paper is one in a series of occasional papers analyzing information from these and other sources.

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Executive Summary

Child care subsidies are an essential component of welfare reform, as they help low-income parents work. Subsidies also pay for the care of about 2 million low-income children, and thus can play a role in their development. However, we know relatively little about the child care providers upon whom the subsidy system depends. Understanding more about the role of policies and practices in affecting whether providers are willing to serve subsidized children and the kind of care they are able to provide, is central to ensuring that the subsidy system achieve its goals of supporting parental work and children's development. These issues are also important in terms of whether families receiving subsidies have "equal access" to child care that is comparable to the care available to nonsubsidized children, one of the major principles of the Child Care and Development Fund.

This report takes an initial step toward filling this gap in our knowledge of child care providers. It relies on data gathered from subsidy agency administrators, key child care experts, child care caseworkers, parents, and providers in 17 sites across 12 states in 1999 as part of the Urban Institute's *Assessing the New Federalism* case study project. The report examines the subsidy policies and practices that can shape the experiences of providers serving subsidized children—in particular, those that affect

- ***how much providers are paid to serve subsidized children*** (part I). How much providers are paid is a reflection of the policies and practices that determine maximum reimbursement levels, what fees are covered by the state, and how the process of receiving payment works (chapter 1), as well as issues around collecting payments from parents (chapter 2).
- ***how providers experience the subsidy system*** (part II). How providers experience the subsidy system is influenced by policies and practices that affect ***when*** providers receive payments and the requirements providers need to complete to receive payment (chapter 3), as well as administrative issues that affect how many different agencies they have to interact with and the ease of these interactions (chapter 4).

Part III of the paper summarizes the major findings, discusses some key implications for providers and policymakers, describes some promising strategies in this area, and discusses future areas of research.

According to this study, a number of policies and practices can affect how much child care providers receive and the ease of their interactions with the subsidy system. In some cases policies and practices appeared to support providers, while in other cases policies and practices appeared to undercut the amount providers receive or make it more difficult for providers to interact with the subsidy system. Respondents suggested that these issues may also ultimately affect the

willingness and ability of providers to participate in the subsidy system—which means they could affect whether children receiving subsidies have equal access to the range of providers available to nonsubsidized children. These policies and practices may also have implications for the financial stability of providers and the quality of care they provide.

While the research in this report highlights a number of policies that can be difficult for providers, it also highlights a range of more supportive practices. Implementing some of these more supportive strategies may be challenging within the current context of inadequate funding for children. However, taking steps in this direction is likely to result in policies that better support low-income working parents and ensure that subsidized parents have equal access to the child care market.

Introduction

Child care subsidies are an essential component of welfare reform, as they support parents moving from welfare to work as well as low-income working parents who are trying to keep their jobs. Child care assistance can also play an important role in the achievement of many other important social goals—in particular, keeping low-income children safe and helping them develop—as it helps parents access child care while they work. Because policymakers have recognized the importance of subsidies, public funding for child care assistance has risen significantly in the past decade. Federal funding alone was estimated at $7.4 billion in fiscal year 2000, and states invest additional amounts (Adams and Rohacek 2002b). More recently, though, some states have begun to cut child care funding because of budget crises and economic difficulties (Children's Defense Fund 2002; Neuberger 2002).

Despite the importance of child care subsidies and the growth in public investments in this area, we know relatively little about how the child care subsidy system actually works at the ground level. In particular, until recently, we had little information about how subsidy policies and practices affect parents (Adams, Snyder, and Sandfort 2002), and there has been a dearth of information on how child care providers experience the subsidy system.

The lack of information on child care providers, and the impact of subsidy policies and practices upon them, is particularly remarkable given the central role they play in the success of the subsidy system. Child care subsidies help low-income families defray some or all of the costs of purchasing care from child care providers in the larger market. Consequently, by definition, the willingness of providers to accept subsidies is critical to the success of the subsidy system—and therefore to the success of welfare reform—as subsidies cannot operate without providers to provide the service.

Yet we know relatively little about providers and the subsidy system, or about what policies and practices can affect the willingness or ability of child care providers to serve subsidized children, or shape the care they provide. This is beginning to change, however, as recent research suggests the providers' willingness to participate in the subsidy system and actual participation patterns vary significantly across regions and by the type of provider (GAO 2002; Schrager and Miller 2002). For example, in a recent survey of state child care officials, respondents estimated that the percentage of licensed providers that participated in the subsidy program ranged from 23 to 90 percent (GAO 2002). These studies also indicate that some providers that are willing to participate set limits on the number of subsidized children they will serve.

This report takes another step toward filling this gap in our knowledge by examining subsidy policies and practices that can shape the experiences of providers serving subsidized children and highlighting the variation in those policies across sites.

Our data are from site visits conducted in 17 sites across 12 states in 1999, where we conducted interviews with key administrators and experts, as well as focus groups with subsidized child care providers, caseworkers, and parents receiving subsidies. We asked these individuals about a range of provider-related issues, including reimbursement rates, parent fees, and the payment process, as well as about their experiences with the subsidy system. While we had not originally planned to focus on subsidies and providers, we found the data we collected about provider-related issues sufficiently rich and compelling to produce this report. However, this is in many ways a preliminary look at this topic and we are in the process of undertaking additional research in this area.[1]

Understanding the Policy Context for Providers and the Subsidy System

Child care subsidies are designed to help parents access child care options in their community. The primary federal program is the Child Care and Development Fund (CCDF, also known as the Child Care and Development Block Grant). States administer the CCDF, and also contribute their own funds. These funds are, in most cases, used to give low-income parents the equivalent of a "voucher" (or certificate) that they can take to the provider of their choice.[2] (Some states also provide child care assistance through a "contract" mechanism [see box 1].) Under the voucher program, parents can use any legal provider that is willing to accept their child and the conditions of the subsidy (such as the state rate, etc.). Parents can use this voucher in a range of different child care settings—including child care centers, family child care homes (child care in the home of a nonrelative), relative caregivers, and in-home caregivers.[3] The state will pay the provider's rate, as long as it doesn't exceed a cap set by the state. Many parents are required to pay some portion of the cost of child care, with the amount determined by a sliding fee scale so that the fee rises as the parent's income rises.[4]

One major principle in the CCDF that frames provider-related subsidy policies is that subsidy policies—and in particular payment rates—should be sufficient to ensure that families receiving subsidies have "equal access" to child care comparable to the care available to nonsubsidized children.[5] This principle has several components, including the suggestion that "equal access" requirements can be met by paying the rate that the provider charges, up to a state limit. (The U.S. Department of Health and Human Services [HHS] recommends setting this limit at a level sufficient to cover the rates of at least 75 percent of the providers in the market [see chapter 1].) Similarly, the CCDF rules and regulations encourage states to set payment policies and practices that reflect the realities of the child care market, thereby making it more feasible for providers to participate.[6] Consequently, the "equal access" principle provides an important frame through which to assess subsidy policies and practices that affect providers. In particular, it is useful to examine whether these policies might result in providers being unwilling to serve subsidized children and therefore jeopardize the goals of equal access, as well as limit parent choice.

Box 1. Child Care Contracts

In a number of states, some part of the subsidy funds are delivered through a "contract" mechanism, though relatively few states rely heavily upon this payment approach. The traditional approach to contracts has been where the agency enters into a contract with selected child care providers and agrees up front to pay the provider a certain amount for a certain number of children. The provider can count on getting the promised funds as long as he or she complies with requirements and provide the services in the contract. However, forthcoming research suggests that states vary in their approach to using contracts, with some states reimbursing providers rather than paying all or part of it up front (see report from the Center for Law and Social Policy describing state use of contracts in their child care subsidy systems).

In considering policies that affect providers, policymakers and researchers have focused primarily upon some broader policies—in particular, important issues such as where states set the limit on how much they will pay for child care (also known as the maximum reimbursement rate ceiling), how they determine these maximum rates (market rate surveys), and whether they will pay higher amounts for particular types of care (differential rates). There has been relatively less attention to how these policies are implemented and experienced, as well as other factors that can affect the willingness and ability of providers to accept subsidies.

However, our respondents made it clear that although these broad policy parameters are essential, they provide only a part of the picture. Specifically, what providers actually experience—and therefore what may actually affect their willingness or ability to participate in the subsidy system—is affected by a number of interacting policies and practices. For example, the amount providers are paid is not only affected by policies around rates, but also by more subtle policies about what will and won't be covered, practices that affect whether the provider actually receives the full payment, and whether the provider is able to collect parent fees. In addition, providers' experiences are also affected by the ease of getting these payments and interacting with the subsidy agency itself.

While this report focuses more on how providers experience policies and practices, it is also essential to understand the context that subsidy agencies operate within as they implement subsidy policies. First, the 1990s was a decade of growth and change for the child care subsidy system. Both funding and the number of children served increased significantly during those years, and many states changed their administrative practices. All of these system changes became even more dramatic after the passage of federal welfare reform in 1996. For example, a study of child care spending in 17 states found that spending increases between 1997 and 1999 ranged from 17 to 311 percent, and half of the states had growth of 78 percent or more (Collins et al. 2000). As a result, during the 1990s many state and local subsidy agencies were focused on getting increased funds allocated and enrolling new families. Many agencies therefore found it difficult to focus on *how* these services were delivered, and had little time to focus on the issues facing child care providers. In addition, as will be discussed later, some subsidy agencies were experiencing issues such as increases in caseloads, staff turnover, and inadequate training and technology that made service delivery more difficult. (These pressures

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are likely to be even greater now as agencies face funding cutbacks because of many states' current budget problems.) Because the subsidy system is dynamic, this report should be seen as providing a snapshot of the policies and practices of selected subsidy agencies in 1999. While some agencies may have changed their policies and practices since that time, the broader patterns we identified and the lessons learned from the sites we visited are likely to reflect issues faced by other agencies in other localities.[7]

A second important contextual issue is that even with increases in funding, the subsidy system is not funded at a level that allows services to be provided to all eligible families (Adams and Rohacek 2002b). This was true for many of the ANF states when we visited in 1999,[8] and is even more true now as states nationwide have begun to cut funding for child care (Children's Defense Fund 2002; Neuberger 2002). As a consequence, many subsidy agencies must make difficult trade-offs between choosing to serve additional families that need services versus improving services (which can mean paying more for those families that are already getting assistance). Given that a primary focus of subsidies is to help low-income families get child care assistance, it is common for states to give priority to serving additional families. The challenge is, of course, exploring the extent to which these trade-offs may affect the ability to achieve the principle of equal access described above.

A third issue that may affect how subsidy agencies deal with provider-related issues is that a number of agencies appear to see their primary responsibility as serving low-income parents, not child care providers. This is understandable given that parents are their clients and focus. However, this attitude appears to vary—while some agencies seem to see providers are more peripheral, other agencies seem to recognize the important role that providers play in the subsidy system and therefore focus more on their needs.

Why Providers Matter

Child care providers are an important piece of the subsidy system and can play multiple roles for low-income working parents and subsidy agencies. At the most basic level, these providers supply the child care needed by low-income working parents so they can work. Low-income families can only use their subsidy if they are able to find a provider that is willing to accept their child. As a consequence, child care providers' involvement in the subsidy system is central to achieving the overall goals of welfare reform and of the subsidy system—and those policies and practices that affect the willingness and/or ability of child care providers to serve subsidized children are therefore equally important.

In addition to being essential to support parental work, providers play two other equally important functions. In particular, they provide the environments where children are cared for, and therefore affect children's development. While providers play this role regardless of whether they serve children receiving subsidies, subsidized child care providers are particularly important, as they care for low-income

children who are often at greater risk of school failure and other problems. Consequently, subsidy policies and practices that affect the *quality* of care that providers are able to give are also important.

Finally, our site visits also revealed that providers serve another critical (though under-recognized) function—they can help parents navigate the subsidy system, and facilitate their interactions with the subsidy agency. Getting and retaining subsidies can be a complex process for parents (see, for example, Adams et al. 2002). Conversations with providers revealed that providers can let parents know about the availability of subsidies, assist them with the application process, and facilitate interactions necessary to retain subsidies (such as recertification). Providers can be uniquely qualified to provide this kind of help, as they are likely to be more familiar with the parent's situation than the caseworker is, and are likely to know much more about how the subsidy system works than the parent. Providers' motivation for getting involved with parent's subsidy interactions seemed to stem both from their concern about the well-being for the families and their desire to ensure they are paid for providing care.

It is important to recognize all three of these roles in examining the implications of subsidy policies and practices for providers. Specifically, to what extent do subsidy policies/practices a) make participation in the subsidy system attractive to providers, b) support the quality of care that providers give, and c) help providers support parents' navigation of the subsidy system? Supporting providers in all of these roles can, in turn, help subsidy agencies achieve important social goals—including providing families with equal access to the larger child care market and the full range of choices available, supporting child development, and helping stabilize parents' work and child care situations to better support families in their employment and, for those families on or moving off of TANF, their growing independence from welfare.

The Research Approach

The research presented here was collected through interviews and site visits conducted under the case study/policy research component of the *Assessing the New Federalism* (ANF) project of the Urban Institute (see appendix I for more about methodology). This research involved a team of 10 researchers collecting information in 17 sites in 12 states between June 1999 and March 2000 (see box 2).[9] In this process, we interviewed child care administrators and child care experts at the state and local level, and conducted focus groups of child care subsidy caseworkers, parents receiving subsidies, and providers serving children receiving subsidies. Our primary focus was on understanding the voucher subsidy system (as opposed to subsidies funded through contracts). We chose to focus on vouchers because 83 percent of the children served through CCDF in FFY 2000 were served through this payment mechanism (HHS 2002).[10]

As noted earlier, we asked respondents about a range of provider-related issues, including reimbursement rates, parent fees, and the payment process, as well as

Box 2. *Assessing the New Federalism* States and Sites

Alabama (Birmingham)	Minnesota (Minneapolis)
California (Los Angeles, Oakland, San Diego)	New Jersey (Jersey City)
Colorado (Denver)	New York (Buffalo, New York City)
Florida (Miami, Tampa)	Texas (El Paso, Houston)
Massachusetts (Boston)	Washington (Seattle)
Michigan (Detroit)	Wisconsin (Milwaukee)

about their experiences with the subsidy system. While in many cases we have data on these issues for all of our sites, one of the particularly valuable aspects of this kind of qualitative research is that respondents bring up issues that were not originally part of the research protocols. This greatly enriches the data and informs the research. However, as a result, there are some issues that are not available for all sites.

This research approach allows us to gain insights into the voucher subsidy system from multiple levels and perspectives, including those at the front line (i.e., agency staff and administrators, parents, and child care providers). The front-line perspective—in this case, the perspective of child care providers—has been underrepresented in subsidy research, but is essential in examining the real impact of policies and programs. This approach also allows us to understand how issues were perceived at different levels and by individuals with different perspectives or concerns. For example, this approach underscored that although the different stakeholders in the subsidy system—including subsidy agencies, parents, and providers—generally seemed to have the same overarching goal of having a system that supported working parents, their individual perspectives and needs sometimes put them at odds with each other. Understanding how policies and practices affect each group of stakeholders can help to create systems that work better for each group.

Our study also used a multistate, multisite approach, which is important because states/sites vary enormously in their child care policies, how they design and administer their child care programs, and how these programs are implemented across different localities. As a consequence, it is impossible to understand subsidy systems without looking across a number of different sites and states. Our sites varied in the number of programs they had, the level of funding, their subsidy policies, and to what extent policies were devolved to the local level. This approach allowed us to explore the variation across and within states in key provider-related policies. (For a description of the basic program and administrative structure of each of the states in our study, see appendix 1 in Adams et al. 2002.)

Our focus on local implementation means, however, that some of our findings are specific to the localities that we visited, and in some cases are specific to the agencies or individuals we talked with. Therefore these findings are not necessarily representative of the experiences of all parents, providers, or caseworkers even within

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any particular locality, much less within any particular state. This is particularly important to remember for sites with multiple agencies, as we found that how subsidy policies were implemented and services delivered could vary considerably across agencies within sites. Furthermore, this approach means that it is not possible to assess the prevalence of the problems discussed by providers and other respondents. In this report, we highlight only those issues that were discussed by a number of respondents across sites, unless otherwise noted.

It is also important to know something about the providers that participated in our focus groups. Given that our focus was to understand how the subsidy system was experienced by those participating in it, we recruited providers that were currently serving children in the subsidy system. As shown in appendix 2, three-fifths of the providers that participated in our focus groups had between 75 and 100 percent of the children they cared for receiving subsidies, and more than half of the providers had participated in the subsidy system for six or more years. As a consequence, these providers had significant experience with the system, and were able to speak knowledgeably about it. Since there are not extensive data on the characteristics of providers in the subsidy system overall, we do not know how representative our focus group participants were in terms of their experience with the system, though it seems likely that the experiences of providers that are less involved with the subsidy system are not as well represented.

We do know that our focus groups were not representative in two ways. First, research indicates that 26 percent of children receiving subsidies are cared for by unregulated providers (such as relative or in-home caregivers) (HHS 2002). However, almost all of our provider respondents were center-based or family child care providers, as relatively few relative or in-home caregivers participated. It is clear, both from the relative caregivers with whom we spoke and from other research, that the experiences of relative and in-home caregivers with the subsidy system are likely to be quite different than other types of providers and warrant a more in-depth examination. See appendix 1 for more information on how providers were selected.

And second, given that our focus was to understand how the system worked for those who were in it, we did not speak with providers that had previously served subsidized families but no longer did so, or to those providers that did not want to become involved in the subsidy system. Obtaining the perspective of these providers, which we plan to do in upcoming research, is critical to obtain a complete and accurate picture of providers' experiences with, and perceptions of, subsidy policies and practices.

In summary, this research approach provides a unique, though preliminary, glimpse into the realities facing providers in the subsidy system. By seeing how these programs operate at the local level, exploring the wide variation across sites, and hearing the voices of those who are most closely involved, it provides some initial insights into the complexity of what child care providers experience and the factors that can affect their willingness and ability to play their roles in the subsidy system.

What Is in This Report

This report examines the factors that can affect the experiences of providers within the subsidy system. It is laid out as follows.

Part I focuses on policies and practices that affect how much providers are *paid* to serve subsidized children. It has two chapters:

- Chapter 1 examines those policies and practices that affect how much providers are paid by the *subsidy agency* to care for subsidized children.
- Chapter 2 discusses how much providers receive from *parents* to care for subsidized children.

Part II examines other policies and practices that can affect how providers *experience* the subsidy system (apart from how much they are paid). It also has two chapters:

- Chapter 3 examines those policies and practices that affect what providers have to do to get paid and the payment process itself.
- Chapter 4 looks at those factors that affect providers' overall experiences with the subsidy system.

Part III presents a brief summary of the major findings, and discusses some of the key implications for providers and policymakers. There are also three appendices in this report that provide more information on key issues.

Taken together, these chapters provide some insights into the complexity of policies and practices that affect providers, as well as what providers can experience when they serve families receiving subsidies. They also illustrate the wide variation in these policies across sites. These findings have implications for the multiple roles providers play in the subsidy system, and are likely to affect the extent to which subsidy systems are able to help parents work and allow parents equal access to the child care market.

PART I

What Affects How Much Providers Are Paid to Serve Subsidized Children?

One key component to the relationship between the subsidy system and child care providers is the amount that providers are paid to provide child care services to subsidized families. As discussed earlier, under the CCDF, subsidy agencies need to ensure that payment rates are set at levels that meet equal access provisions, and must attest to that fact in their CCDF plans. Not surprisingly, therefore, how much providers are paid is a primary issue of concern to providers, policymakers, and the broader early childhood field.

There are several reasons behind concerns about the amount providers are paid, though there has been little research that focuses on the implications of this issue for providers. In particular, respondents were clear that the amount providers are paid can affect their willingness and ability to participate in the subsidy system, since they are ultimately businesses that need to be able to cover their costs. As one provider said, "If . . . [the payment rate] goes up, more people will be willing to take children on subsidies."

Also, the amount that providers are paid seems likely to affect the quality of care in two ways. First, even though not all higher cost care is of high quality it does generally cost more to provide higher quality care because of the higher costs associated with better trained and paid teachers, as well as better materials and facilities. Therefore, the amount paid could affect participation of higher quality providers, and thereby affect the quality of the options available to parents receiving subsidies. Second, it may affect the quality of care that subsidized providers are able to give, as the level and stability of payments affect provider revenue and determine whether providers can pay adequate wages, afford supplies, and so forth. A subsidized provider in one state made this point when she stated that the voucher system "does not equal quality. There is absolutely no way that people can provide quality care, nor can they provide the educational program . . . Those voucher programs were designed to help poor kids, . . . [but] you can't, given the amount of money." The link between the payment levels and quality is not surprising—even though paying higher rates does not *ensure* quality care and we do not know if providers always use rate increases to increase quality, it seems likely that providers would be better able to provide quality care when they are reimbursed at levels that allow them to pay for better child-to-staff ratios and more highly trained/better compensated teachers.[11] And conversely, it seems likely that providers that do not receive payments that are adequate to provide quality care will find it more difficult to do so.

When providers care for a child receiving subsidies, the amount of money that they receive to care for a subsidized child is called their "payment rate" or "reimbursement rate." (The terms "reimbursement rate" and "payment rate" are used interchangeably in this report. Despite the terminology, however, these payments do not have to be on a reimbursement basis.) Generally, this amount does not exceed either what providers would charge a private-paying parent for the same care, or the maximum state reimbursement rate—whichever is *less*.[12] However, the state does not necessarily pay this full amount. Instead, once the appropriate payment rate is determined for a provider, the agency looks at the income of the family that will be served,[13] and applies a sliding fee scale to determine how much of the approved provider rate will be the responsibility of the parent, though some states exempt the lowest-income families from paying any fees.[14] As is described in chapter 2, generally the provider collects this fee directly from the parent, though in some cases the subsidy agency collects the parent fee. The subsidy agency then either pays the provider the difference between the amount owed by the parent in parent fees and the maximum rate the provider was supposed to receive, or—in cases where the subsidy agency collects the parent fee—pays the full amount. This subsidy payment is usually made to the provider, though in a few cases subsidy agencies pay parents directly, who then are responsible for paying the provider (see chapter 2).

Consequently, the provider's actual payment for any particular child is often made up of two components—a payment from the subsidy agency and a payment from the parent. These payments in turn are affected by specific policies (such as reimbursement rate policies and sliding fee scale policies), as well as other less recognized factors that affect how these policies are implemented in practice. The next two chapters look at these issues—focusing first on the factors that affect the state subsidy payment and then on the factors that affect the parent payment.

Chapter 1. What Affects How Much Providers Receive from the Subsidy Agency?

There are two major issues that affect how much providers receive from the subsidy agency. These are policies that affect the ***maximum*** amount that providers can get ***in theory,*** and policies or practices that shape what they ***actually*** receive ***in practice.***

Policies that Affect the Maximum Amount that Agencies Will Pay in Theory

The first set of issues that can affect how much providers receive centers around the policies that affect the maximum amount that providers can get from the subsidy agency. These include policies regarding the maximum reimbursement rate ceilings, whether states offer higher rates for certain types of care, and how states treat those providers that charge above the state maximum rates.

Maximum Reimbursement Rate Ceilings

The state's maximum reimbursement rate ceiling sets a cap on the amount the state is willing to pay for child care, and is a key determinant of the payment amount that providers receive.[15] Most states base their maximum payment rates on market rate surveys, which provide information about the rates charged by providers in the regions surveyed. The CCDF rules require that states conduct market rate surveys every two years, and recommend (though do not require) that states set their maximum rates at least at the 75th percentile of the current local market rate. The 75th percentile is the level that would ensure that the maximum rate would cover the rates of at least 75 percent of the providers in that locality. (The 75th percentile is often misinterpreted as meaning that states will only pay 75 percent of the rate of any given provider.) States usually set different rate caps for care for children of different ages—such as infants, toddlers, preschoolers, and school-age children—and for different types of care (i.e., centers, family child care, and relative care). Some states set different rate ceilings for other categories of care as well, including higher quality care or care that is in short supply.

As shown in table 1, our ANF sites varied in their maximum reimbursement rate caps. For example, as of March 2000 the maximum reimbursement rates for

Table 1. Comparison of State Maximum Reimbursement Rate with the 75th Percentile of the Market Rate for Licensed, Nonaccredited Center-Based Care for a 4-Year-Old in the ANF states (as of March 2000)

State	Percentile/Year of Market Rate Survey
Alabama	75th percentile of 1999 rates
California	1.5 standard deviations above the 1999 market rate mean for the region (approximately equivalent to the 93rd percentile)
Colorado	Counties set rates locally
Florida	75th percentile of 1999 rates
Massachusetts	$172 per month below the 75th percentile of 2000 rates
Michigan	$58 per month below the 75th percentile of 1999 rates
Minnesota	75th percentile of 1999 rates
New Jersey	$105 per month below the 75th percentile of 1997 rates[a]
New York	75th percentile of 1999 rates
Texas	75th percentile of 1999 rates
Washington	$6 per month below the 75th percentile of 1998 rates
Wisconsin	75th percentile of 1999 rates

Sources: All data are from Schulman, Blank, and Ewen (2001), except California and New Jersey, which are from state-level respondents.

a. Respondents reported that New Jersey's reimbursement rates were $5 per month below the 1998 median rate.

licensed, nonaccredited center-based care for a four-year-old in the ANF states were set as follows:

- One state (California) had rates set at 1.5 standard deviations above the current market rate mean for the region, equivalent to approximately the 93rd percentile.
- Six states (Alabama, Florida, Minnesota, New York, Texas,[16] and Wisconsin) had rates set at the 75th percentile of a *current* market rate (i.e., within two years prior to our site visit) as recommended by the CCDF.
- Four states (Massachusetts, Michigan, New Jersey, and Washington) set their rates at a lower percentile of a current market rate.
- One state (Colorado) allowed counties to set their reimbursement rate caps. Some counties had set their rates to at least the 75th percentile of the market rates and others had set rates below this level.

As a result, while a number of states had rates that were at the 75th percentile of a current rate, in four of the ANF states, the rates paid by the state were not high enough to allow parents access to 75 percent of providers (unless the parent could pay the difference), as suggested in the CCDF preamble.[17] In addition, how market rate surveys are conducted can also affect whether payment rates accurately reflect the market. Some important factors affecting market rate surveys include which providers are surveyed, how geographic boundaries are determined, and the survey methods used (Stoney 1994).

Where maximum reimbursement rates are set is likely to have a significant impact on determining how much of the market can be accessed by subsidized families, and

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how much of a provider's costs are covered by the state. At the same time, states can face difficult trade-offs when setting payment rates, as the amount of money spent per family on a subsidy can impact the number of families the agency is able to serve overall. As a consequence, many states consider the amount of their current budget when setting reimbursement rates (GAO 2002), and states with limited resources face trade-offs between serving more families or raising rate ceilings.

Differential Rates

States may also set higher payment rates for certain types of care—or give localities discretion to do so—through differential rate policies. These rates tend to be for care that is of higher quality (such as accredited care) or care that is in short supply (such as care during nontraditional hours or care for children with special needs). These rates are also sometimes referred to as tiered reimbursement rates—particularly when they are tied to tiered licensing standards. Providers meeting the necessary requirements may be able to receive higher payment rates when they accept subsidies. While there is as yet relatively little research on the efficacy of these policies, they are often put in place to act as an incentive for providers to meet certain standards or to provide a particular type of care that is harder to find.

The majority of ANF states offered some type of differential rates at the time of our site visits (see table 2).[18] Five states offered higher rates for providers that met some sort of higher quality standards.[19] In some of these five states, providers were required to be accredited, while in others the state agency had developed their own requirements that providers had to meet (as was true of the designated vendor program in Texas[20]). In two states, such rates were offered to providers that provided care during nontraditional hours or for children with special needs.[21] Two states left the decision on whether to offer differential rates up to the county.[22] Three states—Alabama, Massachusetts, and Michigan—did not offer any differential rates for providers.[23]

A number of providers and respondents discussed the importance of differential rates. For example, providers in California and Washington felt that the higher rates helped them provide care. Respondents in Minneapolis and Wisconsin also commented that differential rates have "helped some inner-city providers stay in business" and made a "dramatic impact." However, while differential rates were often perceived positively, further research to examine their impact would be useful. Specifically, our site visits suggested there are a number of factors that may influence their impact:

Are differential rates set at levels that allow providers to cover the higher costs associated with such care? While further research is necessary to explore this issue in more depth, respondents in some sites discussed whether the higher rates received were worth the effort and covered the costs of providing the type of care that the policy was designed to encourage. For example, some providers in Denver felt that the rates for extended hours and sick care were not sufficient to cover the staffing issues that arise for these types of care. As one Denver provider said, "I don't think it will be enough to make anybody want to incur the cost of additional staffing and

Table 2. Differential Rate Policies in the ANF States as of Summer/Fall 1999	
State	**Types of Care Eligible for Differential Rates**
Alabama	None
California	Higher rates for special needs and nontraditional hours care
Colorado	Varies by county. Denver has higher rates for "mildly ill" care and nontraditional hours care
Florida	Higher rates for accredited care through the state's Gold Seal program
Massachusetts	None[a]
Michigan	None
Minnesota	Higher rates for accredited care
New Jersey	Higher rates for accredited care
New York	Counties have the option to offer higher rates for accredited care and nontraditional hours care
Texas	Higher rates for "designated vendor" providers (designated vendors have to meet higher quality standards)
Washington	Higher rates for special needs and nontraditional hours care. One-time infant bonus when provider starts caring for an infant
Wisconsin	Higher rate for accredited care

a. In Massachusetts, awards were given to providers for staff salary incentives if the programs had taken steps to increase staff training, parental information and referral, and technical assistance for parents of—and providers serving—children with disabilities.

the infrastructure costs because the sick kids need special care, and evening care needs special sleeping arrangements. It is just not enough."[24] A respondent in Los Angeles had a similar concern about the higher rates for nontraditional hours care. Tampa providers also discussed whether the increase in payment was worth becoming a Gold Seal (Florida's differential rate program for higher quality care) provider. One provider noted, "I have to go back through a whole lot of training again for the same thing that I just completed [a Child Development Associate Credential] to get a Gold Seal and then all I get is $10 extra. I might as well stay where I am."

In addition, providers with limited resources may have difficulties dealing with the start-up costs for providing a particular type of care—for example, both becoming accredited and providing care for special needs can be expensive for providers in terms of the start-up and ongoing costs. Some providers in Florida and Texas indicated that they needed assistance in the process of becoming accredited.

Given these concerns, one important issue is how subsidy agencies determine how much higher the rates should be for providers that meet the necessary requirements. While we did not collect data across our states on this issue, one approach is to examine the rates of providers in the market rate survey that are offering a particular type of care (e.g., accredited care) and then set the rates according to what these providers charge. While this approach can present challenges, it has been done—in North Carolina, for example, to set the maximum reimbursement rates for providers that meet higher licensing standards.

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Do providers know about the differential rates? Another issue for differential rate policies is whether providers and parents know about these higher rates. In some sites, respondents noted that providers and parents may not be informed about the possibility of receiving higher rates for providing special services. For example, some caseworkers in one of our California sites noted that they do not tell providers about the higher rates unless they ask. A respondent in Washington also expressed concern that information about higher rates for special needs care was not being communicated to parents.

Are differential rates only paid to providers that charge these higher rates to private-paying parents? Or are they offered as a bonus available to all providers that provide the specified type of care for a subsidized child? Differential rate policies can either increase the maximum reimbursement ceiling (i.e., by a certain percentage), or offer a bonus to all providers that provide a particular type of care. While we did not collect data consistently across states on this issue, in the states where we did collect data for the most part the policies were designed so that the differential rate was an increase in the maximum reimbursement rate ceiling for a particular type of care. For example, in New Jersey the maximum payment rate was raised by 5 percent for accredited care. In these cases, a provider meeting the required standards would receive higher rates *only* if they charged these higher rates to private-paying parents. As illustrated in table 3, this approach primarily affects providers with rates above the regular maximum reimbursement rates, as it makes it easier for them to participate in the subsidy program. (In table 3, only the providers with rates above the maximum rate [Providers C and D] are affected by this type of policy.) However, those providers with rates under the maximum reimbursement rate would not receive any higher payment unless they raised their rates for all private-paying parents in their program. This could be difficult for providers in low- and moderate-income communities, where private-paying parents may not be able to afford higher fees. As a consequence, the primary impact of this approach may be helping subsidized families have more access to providers that already charge these higher rates and that otherwise may not want to participate in the subsidy program. However, it is not clear that this approach has any impact on the ability of providers with rates below the state cap to provide higher quality care or upon the overall supply of such care for low-income families. Another way of designing differential rates is for the higher rates to act as a bonus so that the provider receives the higher rate regardless of what they charge private-paying parents. (In table 3, all the hypothetical providers would receive a higher rate with this type of differential rate policy.)

Ultimately whether these policies have the desired result of encouraging certain types of care and paying providers more for providing this care is likely to depend on some of these key implementation questions. The impact of these policies may also vary by type of provider—for example, though it was not discussed by our providers, it is possible that differential rates have less impact on those providers that do not serve a significant number of subsidized children, as providers only serving a few children may not get enough extra funds from the differential rate to be able to afford to provide the kind of care that is wanted. More research needs to be done on all of these questions.

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Table 3. Payment Received under Three Different Hypothetical Differential Rate Policy Approaches					
	Maximum rate	**Provider A (private-pay rate: $350)**	**Provider B (private-pay rate: $400)**	**Provider C (private-pay rate: $450)**	**Provider D (private-pay rate: $500)**
State base rate (what providers receive without differential rate policy)	$400	$350	$400	$400	$400
Differential rate policy raises maximum rate by 15%	$460	$350	$400	$450	$460
extra amount received above state base rate		*0*	*0*	*+50*	*+60*
Differential rate policy provides bonus of 15% (up to 15% above max. rate)	$460	$403	$460	$460	$460
extra amount received above state base rate		*+53*	*+60*	*+60*	*+60*

Providers with Rates above the State Rate Ceiling

One of the challenging issues facing states and providers is how to deal with those providers whose rates are above the reimbursement rates ceilings set by the state. States vary in how they approach these providers. Specifically, 8 of the 12 ANF states allowed these providers to charge parents the difference between the state rate and the provider's rate (which parents would have to pay in addition to the parent fee set by the subsidy agency). The remaining four ANF states (Colorado, Massachusetts, Texas, and Washington) did not allow providers to do this. In these four states, providers had to agree to accept the state rate and could not make up the difference from parents.

For states, there are particularly difficult trade-offs when deciding whether to allow providers to charge parents the difference between the state ceiling and the providers' rates. On the one hand, allowing higher-cost providers to ask parents to make up the difference between their rate and the subsidy level can be important for higher-end providers, as it gives providers that want to serve low-income children the ability to serve subsidized children and collect their full private pay rate. But it also places an additional burden on low-income parents that have to pay this amount in addition to their parent fee (which in theory is already set at levels that are affordable to them), or forgo these providers because the state subsidy is not enough to make them affordable. The burden is particularly great in a state with a low reimbursement rate ceiling, as parents would potentially have to make up a greater gap or providers would stand to lose a lot. This issue is further complicated by the fact that providers reported difficulty collecting parent fees from parents in general (see next chapter), which suggests that providers may also find it hard to collect these additional charges.

On the other hand, *not* allowing providers to charge the difference forces providers with rates above the maximum reimbursement rate to either accept the lower rate, to find the resources elsewhere, or potentially not accept subsidized children (or limit the number of children receiving subsidies they serve). This approach could limit the options available to low-income parents—particularly in states with

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lower reimbursement rate ceilings—though it also ensures that they will not have to pay more than the state-determined parent fee. These trade-offs further underscore the importance of setting maximum payment rates at levels that allow families to access more child care providers (i.e., at least at the 75th percentile), as this policy can cushion the negative consequences of either approach.

Policies and Practices that Shape What Providers Actually Receive from Subsidy Agencies in Practice

The rate policies described above create the framework that determines the maximum amount that providers can receive. However, even leaving aside the issue of parent fees (discussed in the next chapter), there are several ways in which the amount that providers actually receive from the subsidy agency may not equal the rate that they would get under these policies (which is, at least in theory, what they charge private-paying parents as long as it is under the state cap). Some of these have to do with what the subsidy agency will and won't cover (such as absent days and special fees), and some others result from how and when the parent is authorized for subsidies.

Does the Subsidy Agency Reimburse Providers for Days the Child is Absent?

One of the hidden ways in which actual agency payments may be undercut is whether the subsidy agency pays for days that the child is absent (i.e., due to illness). The challenge here is that generally providers receive payment from private-paying parents at the beginning of the period of service, and parents pay for that entire period even if their child ends up being home sick. This is because the parent is paying for a slot with that provider, and the provider incurs most of the same costs regardless of whether the child is actually present.[25] However, subsidy agencies take a different approach—usually reimbursing the provider *after* the service has been provided (as is discussed more in chapter 3) and not necessarily paying for absent days. Data from March 2000 show that the ANF states varied in their absent day policies (Schulman et al. 2001). Almost half the states left the decision of how many absent days to cover up to the county or local agency.[26] The other states had set limits on the number of allowable absent days—ranging from 4–5 days per month to nearly all days.[27]

From an agency's perspective, limiting the number of absent days they cover is necessary to ensure that the subsidy agency is not paying for long periods of time the child is not actually in care. However, for providers, reducing the payment for uncovered absences means that they could end up not receiving the full rate that they are due under the maximum reimbursement policies noted earlier, and would actually get less than they would get from a private-paying parent. Some providers in our focus groups discussed the financial difficulties they can face because of this issue. For example, a provider in Jersey City noted, "We lost over $6,000 in . . .

[one] month . . . for days in which [the subsidy agency] would not pay for sick days... and you still have to pay your staff." Similarly, providers in Denver noted that because of a past reduction in the number of allowable absent days "a lot of big centers suffered terribly . . . [one provider] lost $100,000 in revenue because of this . . . you are holding a slot for a child and you need to be paid for it." The subsidy agency in Denver had increased the number of paid absent days just before our site visit, which providers felt was helpful.

While it is understandable that subsidy agencies want to conserve resources by not paying for the service when the child is not there, it appears that limiting absent days in a given month reduces the provider payments in a way that is not related to any reduction in their actual costs. It also appears to effectively reduce the state payment to levels below those paid by private-paying parents in the same program.

Does the Subsidy Agency Reimburse Providers for Standard Fees Charged to Private-Paying Parents?

Another hidden way in which providers' charges may not be covered concerns whether the state covers standard fees that the provider charges to private-paying parents, such as registration fees, field trip fees, and fees for other activities or basic services. While there is little information as to how prevalent these fees are, a number of respondents and providers across our sites discussed these costs. The ANF states differed in whether they covered these additional fees. Two states—Florida and Michigan—did not cover any of these additional costs. Colorado left the decision whether to cover any or all of these costs up to the county. The remaining states did pay for registration fees or field trips under some circumstances, though it appeared that they differed in the approach they used.[28] For example, in at least some cases this fee was paid only if, when added to the provider payment, it did not exceed the maximum payment rate.[29] Under this approach, providers whose rates were near or at the state cap would not have their fees covered. Furthermore, while a number of states paid for additional fees, providers may not be aware that these additional fees are covered. Some providers in Washington, for example, did not know they could receive payment for field trips.

The fact that many agencies are not able to serve all eligible families may mean they need to make difficult trade-offs in what fees are covered by the subsidy. However, when these costs are not covered by the agency, providers either need to forgo these funds or—if allowed—try to collect these additional fees from parents, which could be particularly difficult for low-income parents. Furthermore, it seems likely that some providers may choose not to accept parents that can't cover these out-of-pocket costs (particularly registration fees, which occur up front), which would limit options available to low-income families.

Does the Subsidy Agency Authorize Part-Time Subsidies?

Another issue that can affect the amount that providers receive is whether the subsidy agency authorizes part-time subsidies. While we did not systematically collect information on the extent to which part-time subsidies are authorized, the com-

ments of some providers suggest that how subsidy agencies handle this issue likely has important implications for child care providers, and that this is an issue that needs to be examined more fully.

Generally, the subsidy authorization level (i.e., the number of hours the subsidy covers) is tied to the number of hours the parent is working, or doing whatever activity that makes them eligible for subsidies.[30] In cases where parents are working less than full-time, the subsidy agency may decide to authorize a part-time subsidy. From an agency's perspective, it can make sense to authorize part-time subsidies since parents do not necessarily need to have their children in care full-time when they are working part-time.

These policies, though, may be difficult for providers. In particular, many providers do not offer part-time slots because it can be difficult to set up staffing patterns to accommodate them. Some providers noted that having the agency authorize subsidies for less than full-time care contradicted their own policies for private-paying parents (who are expected to pay for a full-time slot). One provider said "if my cash-paying parents are going to pay for that full-time slot, the program should pay for it too," while another provider noted:

> ***We are a business, and we treat our families the same if you are a private pay or a funded program . . . However, then the agencies want us to do different things [for these two groups] . . . I tell a private pay family, you have to pay for that 40 or 50 hour slot . . . We're a business, you've got to realize we wouldn't be able to keep employees that way.***

In these cases, if the provider accepts a parent with a part-time subsidy, but then is unable to fill the remaining hours of the slot, the provider can lose money.[31] However, a provider approached by a parent with a part-time subsidy can make an informed decision on whether to serve that parent's child based on whether they can fill the remainder of the slot, since they know up front that that parent has a part-time subsidy. In fact, some providers in our sites noted that they refused to serve families on a part-time basis, which suggests that policies to pay part-time subsidies may limit the choices available to parents.

The issue becomes more complicated in cases where the authorization level changes over time, since providers may find that a parent who was initially authorized for full-time care now only receives a part-time subsidy. For example, in at least one site the parent's subsidy was reduced from full-time to part-time status if the parent was in job search. This can put the provider in the difficult position of having to find another child to temporarily fill the other half of the provider's slot, or having to stop a child's care because the provider is unable to cover the costs of offering part-time care. The policy could also be particularly difficult for providers given the dynamic nature of low-income parents' employment patterns.

Do Providers Get Paid for the Full Period of Time They Are Serving the Children?

One of the more common concerns discussed by providers was not getting paid for the full period of time they had served the child. It was usually because the provider

would inadvertently end up serving the child during some period when either the child or the provider was not eligible to be reimbursed. This situation seemed to most commonly occur during transitions *into* or *out of* the program—either the child's transition into or out of the provider's care, or the family's transition into or out of the subsidy program. Although we do not know the prevalence of this issue and how frequently providers experience these problems, this was an issue discussed by a number of providers across a number of sites.

While the root causes of the payment problems are somewhat different for the initial period of service and the final period of service (each is discussed separately below), the consequences were the same. Basically providers in a number of sites described situations where they ended up "getting burned" and "eating the costs" for the services they provided, since they would be unable to get reimbursed by the state. And as described more in chapter 3, it was difficult to recoup these costs from parents, because they were low-income and seldom able to cover the full cost of care (which is why they had sought assistance in the first place).

These problems were further compounded by two additional issues. First, the fact that most subsidy agencies reimburse providers after they provide the service meant that providers could end up not discovering the problem for several weeks (as is described more in chapter 2). And second, research found that the average duration of subsidies for children in five states ranged from three to seven months (Meyers et al. 2002), so providers may not be able to count on receiving subsidy funds for long periods of time for any individual child.

Getting paid for initial period of service. Providers mentioned challenges around getting paid for the initial period of service, when the child first started receiving subsidies or entered the provider's program. As chapter 3 discusses, this process can involve a number of different steps and can (in some cases) be complicated.[32] The complexity of the different processes is compounded by the fact that parents could urgently need child care in order to accept or retain their job, imposing significant time pressures on all concerned. However, from the perspective of the provider, the financial bottom line is at what stage in the process they will actually start to get paid for the child.

A number of providers, across a number of sites, reported experiences of not getting paid for some period during the child's transition into the subsidy system, or into their program. They also reported that they often were unable to recoup the money for that time frame. While it was difficult to disentangle exactly why some providers didn't get paid for the early stages of the process or how common these problems were, these issues were discussed across a number of sites. A few reasons for these problems were apparent.

In some cases, this problem seemed to be owing to confusion or miscommunication about whether and when the payment would actually begin—for example, providers in Detroit, Denver, and Seattle noted confusion about whether payments started once they signed the initial certificate, or not until they received an additional approval notice. Interestingly, agency staff in at least one site were also sometimes not clear about this. In this site, once the provider signed the child care plan

for the parent, the child care subsidy still needed to be approved and an approval letter sent out to providers. Providers discussed that they had been confused by these multiple steps and hadn't been sure when the parent was actually approved to be served—though they agreed that it was best to wait until they received the approval letter from the subsidy agency. However, while this appeared to be the policy, some agency staff did not agree—for example, one respondent said, "We have a lot of problems with providers during the initial set-up period where they won't take children because they don't have the social service notice yet even though they have already accepted the child and filled out the child care plan. So we go rounds with them on that one." Given that there was not agreement on these issues between different respondents within this agency, it is understandable that providers might not be clear on these details.

A different cause of confusion was created for other providers—for example, in one of our California sites and New York sites—who reported that they had a verbal agreement with the agency to serve the child before the paperwork was finalized, but that they would later find out that the child had not been approved after all and they would not get paid.[33] For example, one provider noted:

> *[The subsidy agency] called me and asked "will you be able to take a child while the child goes through the application process?" I say "ok" and the parent doesn't go through the process and I have watched those kids for a month or more, and then they don't have the subsidy. Who is going to pay for the child care? Not the state. And not the parents because they are just getting on their feet. I just lost money.*

Sometimes providers did not get paid because the authorization was ultimately not approved by the agency, or (as in the case of the provider above) because the parent did not follow through with the process so the authorization was not finalized. This problem was made even worse when the parent left the child care program before the situation could be clarified, and before the provider could get paid. These providers were not able to recoup the funds from the state because the parent had never been finally authorized for service.

These cases often appeared to be because of confusion or miscommunication with the agency. In some cases, this may have been related to other challenges that some agencies faced—such as inadequate training and computer systems, staff turnover, and increased caseloads (discussed more in chapter 4)—which could have made it more difficult to communicate with providers regularly. However, in some instances the problem stemmed from the provider deciding to serve the child before receiving final notification. For example, we heard stories about providers that decided to serve the child before the paperwork was finalized—either because they were confident that it would go through, or because they were told by the parent that the approval was final and served the child without waiting for formal notification. As a provider in Detroit noted, "You have no case number so you can't bill for this child. So you just have to sit there and wait until you get that verification . . . You're just sitting there going on faith that it will go through."

Some evidence suggested that this issue may play out differently for providers that have had more experience with the system, as some providers would refuse to

accept children early based on negative past experiences. In fact, providers across a number of sites said that experience had taught them to not take parents without written notification. For instance, in Minneapolis, one respondent noted that providers that have been in the system longer have different policies than those new to the system—"providers with experience with the system, make different decisions" in that some will only take children once the authorization is complete. Providers in Detroit also noted that while many of them had at some point been burned by serving children before the application was approved, many would no longer do so—they now would only serve children after receiving written notification, though some reported requiring parents to pay for the care until the application had been approved and then reimbursing parents once the funds arrived. A provider in New York noted an experience where a caseworker assured her verbally that the child care was approved, but then she did not receive payment. After that situation she said she "won't take a child again without a letter even if [the governor] calls."

Given the potential of not getting paid for a period of service, it can make sense for providers to wait until families are officially authorized before providing care. Yet it appeared from our conversations with caseworkers and administrators that there was a value to all parties concerned—the subsidy agency, the provider, and the parent—in having providers that were willing to serve children quickly, even before the official authorization. Specifically, such providers can help fill the child care needs of parents during the interim period while paperwork is being processed—thus helping the parents work, minimizing the risk of job loss due to inadequate child care, and potentially smoothing the transition for the child. This support can be very important to parents, particularly in sites where the subsidy approval process is delayed. The provider's important role in filling this gap was recognized by a number of caseworkers across sites, who seemed to rely on providers to accept parents without written authorizations. Caseworkers in El Paso, for example, reported giving a verbal authorization so parents could start in care and then following up with a written authorization.

In an effort to identify ways to keep providers from getting penalized for providing this early service, some sites have developed practices to cover providers in cases where the parent is not approved or if there is a delay in the approval process. In Birmingham, for instance, the subsidy agency will pay for care up to a month for some families in cases where the family had been determined eligible, but the provider had not yet been registered (which they need to do to be paid).[34] Similarly, Minnesota's expedited care program gives families immediate authorizations for care without the required verification for the first 30 days, so providers are assured payment. Another practice that some caseworkers engaged in (though it was not clear if there were formal policies to do so) was "backdating" the voucher, which meant to date the voucher so that it covered the time period while the voucher was being processed—for example, a provider in one site noted that one caseworker backdated the voucher so that the provider could be paid during the initial processing period. It seems likely that similar strategies could be used to cover other interim arrangements.

Getting paid for the last period of service. Another challenge for providers is knowing when the state will no longer pay for a child's care because the parent has been terminated. In situations where providers are unaware that the parent's subsidy status has changed, they may continue to provide care until they submit for reimbursement and find that they will not be paid. While they technically can collect those payments from parents, given the difficulties providers have collecting fees from parents (chapter 3), they may well lose payment for those days of care. This is one area where subsidy system payment policies are somewhat different than those providers use for private-paying parents. For example, as noted earlier, a private-paying parent would pay up front for an entire period of service (i.e., for the month), and may be required to give two weeks notice before leaving the program.

A number of providers across sites discussed instances where they did not receive payments during periods when the parent had been terminated without their knowledge. For example, providers in Miami discussed that they sometimes do not know that the parent is ineligible for subsidies, and continue to serve them only to find out when they submit their bill that they would "not be paid for these three weeks." Providers in Oakland noted that with one subsidy agency "you can care for a child for a month after termination and the agency won't tell you that a family has been terminated." While ideally parents would notify the provider of their pending termination, this does not always occur. A respondent in Seattle noted that subsidy agencies that rely upon parents to notify providers about termination

> ***aren't thinking very well about this family's reality. I mean their lives are held together by a very thin thread, and as much as they want to be honest, they still need to get to work. They don't have a back-up plan, so what do you do? It is a horrible dilemma for families . . . they spend that time when the provider doesn't know that they won't get reimbursed finding cheaper child care and then everything hits the fan and they move to another provider and the first provider get stiffed . . . I think that happens a fair amount.***

Subsidy staff in a number of sites also recognized the difficulties this can create for providers. For example, an agency respondent in Detroit noted, "providers really get the short end of the stick and we can't really communicate with them because it's not their case." Similarly, a respondent in New York City noted that providers can find out after the fact that the payments have stopped and "they basically got to eat a week or two."

Some agencies did take steps to try to minimize the problems for providers when parents leave the system.[35] For example, one state agency has recently developed a secure web site where providers can monitor data on subsidy payments and track dates of recertification. In addition, many sites had a policy to formally notify providers in advance of any relevant changes in the parent's status—such as notifying providers if the family was to be terminated[36] or needed to recertify.[37] These notifications, generally by letter (or in some instances by phone), let providers know when they might stop getting paid and can effectively provide advance warning. In addition, the recertification sometimes was provided on the monthly attendance

form that providers had to submit for payment. Where these policies existed, they could end up effectively mirroring policies that providers may have had for private-paying parents—for example, some providers noted requiring private-paying parents to give them two weeks notice before terminating.

An additional benefit of advance notification is that it can allow providers to play a facilitating role with parents and help minimize inadvertent terminations. For example, knowing the recertification date allows providers to remind parents to recertify, which is important given that failure to recertify was one of the more common reasons parents lost their subsidies in our sites. Not surprisingly, providers in a number of sites (including El Paso, Miami, Michigan, Minneapolis, and Houston) discussed the fact that they monitored the recertification dates of the subsidized children in their program. Similarly, giving providers advance notification about terminations can give providers an opportunity to assist parents in coming into compliance with rules if that is the cause. One important issue to be aware of in such notifications, however, is how to best maintain the confidentiality of the client, though states may vary in the extent to which this is an issue.

Although many sites did have notification policies, a number of providers across sites reported that they did not always receive notices. For example, a provider in one site said, "Sometimes you do [get these notifications], sometimes you don't." Whether the providers received notification also sometimes varied across local subsidy agencies—providers in another site noted that they will get regular notifications from one agency but not the other. While there may be many reasons why providers may not receive notices that subsidy agencies have no control over (such as the provider misplacing the notice or not reading it), these reports were heard a number of times within and across sites, indicating that in some cases there may be problems with agencies' notification process. Not receiving these notifications can have financial consequences for providers—a survey of family child care providers in Washington found that situations such as not receiving a notification of termination or a notice the child is leaving care could cause the provider to lose money (Thompson 2002).

While not discussed at our sites, it is also important to consider how much notification is required so that providers have enough time to fill the slot (if they choose to stop providing care) so they do not lose money. For example, a provider that receives advance notice that a family may be terminated does not actually know that the slot will become available, as the parent could come back into compliance with subsidy rules and not be terminated. Therefore, it can be difficult for providers to take steps to fill the slot until the termination is final, which may still result in a financial loss if the family leaves the provider before the provider is able to find a replacement.

Conclusions

How much providers receive in payment from the subsidy agency is a reflection of policies that determine the maximum amount providers can receive, as well as other policies and practices—such as how many absent days subsidy agencies cover, whether subsidy agencies pay for additional fees providers charge, and so forth. These latter policies and practices affect whether providers actually get what they charge private-paying parents, and therefore may affect whether providers are willing to serve subsidized children.

Chapter 2. Policies and Practices that Shape How Much Providers Receive from Parents

In addition to payments from the state, providers often also receive payments from parents through parent fees. A common theme across our sites was that while providers needed these payments to receive their full rate, collecting these fees created a great deal of tension. The difficulty providers can have in collecting these fees and charges can undercut the amount providers actually receive when they accept subsidies.

However, the issue of collecting parent payments is somewhat different than the other issues described in this report, since it is a problem that providers may face regardless of whether parents are subsidized. While little research has been conducted on this issue to date, a survey of providers as part of Washington's 1998 market rate survey found that three-fifths of child care centers felt their collection problems were similar for subsidized and nonsubsidized families (Miller and Schrager 2000). In fact, ironically, collection of payment from parents may be an area where serving subsidized children is beneficial, since the amount providers are expected to collect from subsidized parents is less than they would be expected to collect from the nonsubsidized parents. In addition, as noted by some providers we spoke with, providers know that with subsidized families they will receive at least part of their payment from the subsidy agency. However, even though the collection of payments from parents is not unique to the subsidy system, it is important to examine them in greater depth as they are also likely to affect the bottom line of what providers receive. And to the extent that the bottom line for subsidized providers may affect their willingness to participate and/or the quality of care they provide, it is important to fully explore all factors that may affect what providers receive.

The fees providers needed to collect for parents took three different forms, each of which are examined in this chapter:

- The parent fee (or copayment[38]) as determined by the subsidy agency's sliding fee scale
- Any additional charges that are part of the providers' private pay rates and fees that are not paid by the subsidy agency
- The entire payment—including state payment—in instances where the agency paid the parent directly

Parent Fee

The parent fee is determined through a sliding fee scale that is usually set by the subsidy agency.[39] The parent fee represents the portion of the maximum reimbursement rate that the parent needs to pay. The level of the fee is usually based on the family's income and may also take into account the number of children in the family or family size and other factors. States vary widely in the fees that parents are expected to pay. As shown in table 4, a family earning $14,150 a year would pay only $4 per month in New York and $106 in Texas. In almost all the ANF states, providers were generally required to collect these fees from parents, though in two sites—Los Angeles and Oakland—subsidy agencies collected the parent fees.

Providers overwhelmingly felt that collecting fees from parents was difficult. Many providers indicated that they had a formal policy about parent fee collection, though they appeared to vary somewhat in how strictly they enforced this policy. Some providers were very firm about these policies—for example requiring that the parent pay by a certain day of each month and not allowing the child to be dropped off at their center or home if the payment was not made. These providers discussed the importance of these policies from the perspective of running a viable business—without collecting parent fees, they do not have the economic resources to survive. One provider in Denver noted, "I understand that you are in a hard place, but we have to provide care for the other 45 children standing around you. You either need to pay your bill or we can fill your spot with someone who can."

There were also a number of providers that noted that they tried to be firm but flexible about parent fees. These providers often expressed a sympathetic perspective toward the families they served, particularly those that they perceived to be working very hard to achieve self-sufficiency. As one provider in Detroit said, "I know she didn't have it, and she was struggling. I felt so bad for her, I started crying myself and I told her 'don't worry about it.' But I can't afford to do that with everybody." Some providers also reported that they would allow parents to pay their parent fees late or waived them entirely. When fees were small, some providers were willing to forgo that payment if necessary, as long as they still received the bulk of the payment from the state. A provider in Tampa noted, "I would rather lose the $2 and get the $100 at the end of the month and let the child learn something," while a Miami provider echoed this sentiment saying "Sometimes you are willing to lose that $4 to get that other $60 [so] that . . . you can maintain the staff that you have and keep operating." However, some providers noted that these lost fees could add up over time, and were concerned about the forgone income. This is, in turn, closely related to the levels at which fees are set—the financial implications of forgoing fees would obviously be less serious with parents with lower fees either because they are at the lower end of the income scale, or because they are in states with lower parent fees. Providers' difficulties with collecting fees underscores the importance of setting fees at reasonable levels so parents are more likely to be able to pay them.[40]

Table 4. Parent Fees for a Family of Three at Different Income Levels as of March 2000

State	Family Earning 50% of the 2000 Federal Poverty Level ($7,075/year)		Family Earning 100% of the 2000 Federal Poverty Level ($14,150/year)		Family Earning 150% of the 2000 Federal Poverty Level ($21,225/year)	
	Monthly Parent Fee	Parent Fee as a % of Income	Monthly Parent Fee	Parent Fee as a % of Income	Monthly Parent Fee	Parent Fee as a % of Income
Alabama	$22	4%	$65	6%	$184	10%
California	$0	0%	$0	0%	$0	0%
Colorado	$36	6%	$96	8%	$180	10%
Florida	$35	6%	$69	6%	$121	7%
Massachusetts	$0	0%	$78	7%	$173	10%
Michigan	$24[a]	4%	$24	2%	$24	1%
Minnesota	$0	0%	$5	< 1%	$48	3%
New Jersey	$33	6%	$90	8%	$157	9%
New York[b]	$4	1%	$4	< 1%	$191	11%
Texas	$53	9%	$106	9%	$159	9%
Washington	$10	2%	$20	2%	$85	5%
Wisconsin	$17	3%	$74	6%	$165	9%

Sources: All data are from Schulman et al. (2001) except New Jersey and Washington, which are from state-level respondents.

Notes: Monthly fees were calculated from hourly, daily, and weekly fees with the assumption that children were in care 9 hours a day, 5 days a week, 4.33 weeks a month. For states that calculated fees based on the cost of care, it was assumed that the family had a 4-year-old in a licensed, nonaccredited center charging the maximum rate.

a. This scenario—a family of three earning $7,075 a year and needing full-time care—is used for comparison purposes, but would be very unlikely to arise in Michigan. To be eligible for assistance for full-time care, a parent would have to be working full time (the state does not approve full-time care for education or training), and if they were working full time, even at minimum wage, they would be earning more than $7,075 a year.

b. New York's parent fee was calculated for a family living in a district that sets fees equal to 35 percent of the difference between the family's income and the state income standard. Districts may set fees as low as 10 percent of the difference in which case the fee would equal just 3 percent of the family's total income. However, most districts apply a percentage of between 25 and 35 percent.

There seemed to be an enormous variation across sites in the extent to which subsidy agencies pursued the issue of parent fee collection (though we did not collect data on this issue in all sites). In particular:

- In some cases (e.g., Seattle), the subsidy agency was not involved in the collection of parent fees, as it was viewed as something that was between the parent and provider.
- In some cases, the subsidy agency was somewhat involved with making sure providers received their parent fee. For example, some sites required parents to show proof that they were up to date with their fee payments before they could change providers or re-enter the system following termination.[41] This policy was designed to address problems of parents not paying their fees and moving from provider to provider.
- In at least one site—El Paso—the subsidy agency took a stronger role in this issue by penalizing providers if they did not collect the parent fees. In El Paso, providers

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reported they would lose a percentage of their state payments if they did not collect parent fees or report to the agency when a parent was delinquent.

- As noted earlier, in two sites—Los Angeles and Oakland—the subsidy agency actually took on the role of collecting the parent fees, rather than requiring that the provider do so.

Other Parent Fees

In addition to the regular parent fees based on the sliding fee scale, the provider may also need to try to make up additional fees or charges that the state does not cover. Providers may have registration or other activity fees (such as field trips, etc.) that the agency does not pay for. Providers may also need to make up the difference in rates between the state rate and their private pay rate. State agencies may or may not allow providers to collect these types of fees from parents—as noted earlier some states would not let providers recoup additional fees from parents.

As with the agency-determined parent fees, providers reported difficulties with collecting both of these types of fees. For example, providers in Minneapolis and Tampa[42] expressed frustration over the issue of field trips. These providers noted that many low-income parents cannot pay these additional fees, so the providers end up covering the costs themselves. There were also difficulties with collecting the difference in rates. A provider in San Diego said, "I have it in my contract that the parent is responsible for paying the difference. But it's so hard for them." Similarly, agency staff in another site noted, "We tell customers to try to go to a provider that will not charge [an additional charge because they are above the state's maximum reimbursement rate] . . . that is where most of my complaint calls come in, providers saying that parents are not paying their part."

Collecting the Entire Payment from Parents

Another policy that can affect the amount the provider receives is who the agency actually pays—the provider, the parent, or some combined approach (i.e., a two-party check).[43] In most of the ANF sites, the subsidy agency paid the provider directly. However, in 4 of the 17 sites (Buffalo, Miami,[44] New York City, and Seattle), the subsidy agency paid parents directly under some circumstances—usually when they were using child care that was exempt from licensing requirements.[45] And two sites used a two-party check in some circumstances, issued either to the parent (Detroit) or the provider (Buffalo). In Detroit, the two-party check was issued when the parent used what the state called a "day care aide," who provided care in the child's home, while in Buffalo a two-party check was used by one of the two department units that administered subsidies when the parent used a regulated provider.[46]

Paying parents was quite controversial across our sites, and a number of our states/sites had previously paid parents directly, but had stopped this practice within the last few years.[47] Respondents in sites that currently or formerly used direct parent payment were fairly consistent in reporting that providers were less likely to receive payment under this system. For example, a respondent in Tampa (where the agency no longer paid the parent directly) noted that "at first they [the subsidy agency] used to pay the parents directly with vouchers, and that was a total disaster because the parents weren't paying the provider so none of the providers wanted to take vouchers."

Respondents also noted similar concerns with the two-party check system—even though some states seem to have implemented this approach in an effort to maximize the likelihood that the provider would get the money. Some respondents in Detroit reported problems with parents signing the check and depositing it without the provider's signature. Some providers in Buffalo noted that it could be difficult to obtain the parent's signature, as sometimes the provider does not come into contact with the parent if the program provides transportation or if an approved friend or relative came to pick up the child.

As a result, although subsidy agencies may give parents the subsidy payment to encourage parent responsibility, this can also result in providers not receiving payments. Note, however, that this is an issue that is more likely to affect unregulated providers, such as relatives, since at least among the ANF states, most were moving away from this as a method of payment for regulated providers.

Conclusions

In addition to the subsidy payment providers receive from the subsidy agency, providers also generally need to collect a payment from parents, which is determined through a sliding fee scale. The total amount providers need to collect from parents, however, may be more than the parent fee indicates. Providers may need to collect additional fees—such as registration or activity fees, or the difference in rates between the state cap and their rate—in order to receive their private pay rate. They may even need to collect the entire payment in states where parents are paid the subsidy payment.

It was clear from our site visits that providers can face challenges in collecting fees from parents, though these problems may not be unique to the subsidy system. In fact, for some providers the fact that the majority of the payment comes from the subsidy agency (in cases where the provider is paid by the subsidy agency directly) may ensure that they get at least some payment for the care they provide. Regardless, however, issues around collecting parent fees can affect the total amount that subsidized providers receive, and therefore may affect their willingness to serve subsidized children.

PART II

Other Policies and Practices that Affect How Providers Experience the Subsidy System

Other than the policies and practices that affect *how much* providers get paid, there are other policies and practices that can affect the experiences that providers have in accepting subsidies. These center around two sets of issues. The first concerns how easily providers can enroll in the system and get paid (chapter 3). This includes what they have to do to get authorized for payment and to get paid, as well as when providers get paid, and how reliable these payments are. Providers and other respondents were clear about the importance of these issues in affecting their willingness to participate, as well as the implications of these issues for their financial stability and well-being.

The second set of factors, covered in chapter 4, are those that shape any interaction that providers have with the system. This includes the number of agencies they have to deal with, how staffing responsibilities are set up, how easy it is to interact with caseworkers, and the extent to which agencies appear to see providers as partners. The importance of a provider's interactions with the subsidy agency was apparent from our focus groups where providers spoke frequently about their experiences working with the local agency or agencies. The quality and ease of these interactions can shape providers' overall experience with the subsidy system, as well as the roles that providers are willing and able to play in the subsidy system. Providers and other respondents also noted that these issues can affect the willingness of providers to serve subsidized families.

Chapter 3. Policies and Practices that Affect the Payment Process

The amount that providers get paid, while critical, is only part of the story. Respondents in our site visits also highlighted a range of other issues concerning the payment process and how it worked for providers, which affected both what providers had to do to receive the payment and when they received the payment. This chapter highlights three of the issues that can affect providers—specifically:

- What providers had to do to get initially authorized for payment
- What providers had to do to actually get paid
- The timing and reliability of payments

Getting Authorized for Payment

The first set of interactions that providers have with the subsidy agency concern getting authorized for payment. The initial approval process serves an important function for the subsidy agency, since it sets up the payments for the subsidy, and ensures that providers meet any relevant requirements and agree to the agency's payment policies. While we did not collect information consistently across sites on this issue, generally the approval process began once the parent determined the provider they wanted to use and then—depending on the site—either took the appropriate form to the provider to complete or told the caseworker the provider's name. Once the process started, it appeared to have three possible components.

First, the subsidy agency needed to verify that the provider met the relevant health and safety requirements required under federal and/or state law. The federal CCDF requires states to ensure that child care settings (other than relatives) meet minimal health and safety standards. Under federal law, those programs that are required to be licensed under state laws must be licensed if they receive CCDF funds, as licensing laws are assumed to provide basic health and safety protections. Since these licensing protections do not cover those programs that are exempt from state or local licensing requirements—including relatives, unrelated in-home providers, and (in some states) smaller family child care homes—the CCDF requires that states put in place minimal protections for those subsidized providers that are legally exempt from licensing (except for certain relatives). States vary in the health and safety requirements they set for license-exempt providers to receive subsidies. These

requirements could involve as little as self-certification by the provider or may require that the provider undergo screening, such as a background check.

Second, the provider also needed to establish a payment agreement with the agency. Basically, this agreement ensures that the provider accepts the state rate, clarifies the agency's policies around parent fees, and lays out the basic rights and responsibilities of the provider and the parent.

The third component to the approval process was setting up payment for the individual child. This was generally done through the completion of a form by the parent and provider (though in some sites this process was handled by phone[48]). The name of the form varied by site, and was sometimes called a "certificate" or "authorization"; it typically detailed relevant subsidy information, such as the authorized number of hours of care, how much the provider would be paid, and the parent fee. Providers would need to supply their name, address, and rate information. The subsidy agency would then need to process the form before payments began.

How these different components worked appeared to vary both across and within sites. In some cases, these components seemed to be distinct steps, requiring separate forms, documentation, or interactions, while in others they seemed to be handled with one interaction or form. In some cases, the components also varied within sites by whether the provider was new to the system.

In some cases, agencies did not need to verify that the provider met health and safety requirements or set up a payment agreement if a provider was already in the system. While we only have information on this issue for a subset of sites, some sites (New York City, Minneapolis, Denver, Birmingham) required providers to initially register or enroll with the subsidy system when they were new to the system—a process that included the set up of the payment agreement or the verification that the provider was legal. This made the approval process more streamlined for future children and—according to one New York City respondent—allowed care to begin more quickly. In New York City and Denver, for example, once providers were registered they were then given an identification number that they could use if they provided care to other subsidized children in the future. For these providers already in the system, the main step to the approval process would be setting up payment for that individual parent.

If the provider was new to the system, completing the approval process could be more involved as the state needed to go through the process of verifying the provider was legal and setting up a payment agreement, as well as setting up the payments for the individual provider. In Denver, for example, providers new to the subsidy system needed to complete additional paperwork and establish a "contract" with the billing agency. The initial approval process could also involve some extra requirements for providers that were license-exempt. For example, in New York license-exempt providers were required to sign a form stating whether they or anyone in the household had been convicted of a crime. The license-exempt provider and parent also needed to complete a health and safety checklist. In California, license-exempt providers other than grandparents, aunts, or uncles were also required to go through a screening process called Trustline. As part of this process, license-exempt

providers needed to complete basic forms, and then the state conducted a criminal background check. The provider would then be placed on a registry if record checks were clear. License-exempt providers in our California sites were also required to visit the office as part of the provider approval process.

What Providers Have to Do to Get Paid

Once providers are in the system, they also need to regularly complete paperwork in order to receive payments. This paperwork serves a valuable purpose for the subsidy agency since it ensures that the agency pays the provider correctly, can track parent's use of the service, and can account for the funds they use for a family's subsidy. In the ANF sites, providers were expected to complete a form (sometimes referred to as an attendance form or bill), which they would then send to the subsidy agency to receive payments. In most cases, the form was sent by mail or dropped off, though there was a pilot project in Milwaukee to complete the process using the Internet. While we did not collect detailed information on whether and how the forms required to receive payment varied across our sites, it appears that the level of detail required was related to how closely the subsidy agency monitored the attendance of the child and the hours the child was in care.

While administrative agencies clearly need information from providers to pay them accurately, it is useful to examine the relative ease or difficulty of these requirements, and the relative extra burden that is required when compared with what is needed for private-paying parents. It was clear from our focus groups that the paperwork requirements were difficult for some providers, though given the qualitative nature of the research we can not assess the prevalence or severity of this problem. This issue, though, was discussed across a number of sites indicating that it is worth examining more closely. While often providers' concerns were general, there were some specific requirements that seemed to be potentially more problematic than others. In particular:

- **Requiring parents to sign attendance forms.** Providers in some sites—such as in Los Angeles and Milwaukee—discussed the challenges of having parents sign attendance forms before they could be submitted to the agency. (Milwaukee previously had such a policy but had eliminated it before our site visits.) For example, a provider in Los Angeles commented that providers "have to be like policemen to get them [parents] to all sign. And sometimes there are parents that just sign, and don't put the times in every slot." Providers in Milwaukee also discussed their difficulties with getting parents to sign attendance forms before the change in policy. One provider commented that because of the change, "It's much easier on the providers. I don't spend as much time keeping up with the papers now."
- **Recording actual hours of attendance.** Another issue discussed by a provider in Milwaukee was the difficulties involved with having to record the number of hours that children attended each day. This issue is somewhat problematic given competing needs between providers and the subsidy agency. On the one hand, it appeared that recording actual hours of attendance may be difficult for some

providers since it requires significantly more record keeping (and certainly more than is required for private-paying parents). Furthermore, providers do not normally record this kind of information given that they must plan their program around planned (not actual) attendance. On the other hand, from the agency's perspective, this information can play an important role in their ability to monitor inappropriate authorizations and fraud. It seems likely that how closely the subsidy agency monitors the hours of care is related to how tightly they tie the level of payment to actual hours of attendance, which in some cases may be a state-level policy (as in California). This issue is also related to the earlier discussion of paying providers for less than full-time slots—for example, a provider in one California site noted that paying on an hourly basis (and therefore requiring providers to record the actual hours of attendance) contradicted the provider's own policies for private-paying parents, which were to charge based on either a part-time or full-time basis (though this provider seemed to generally expect parents to pay for a full-time slot).

- **Completing separate forms for each child.** Sites also varied in whether providers were required to fill out one form for all children receiving subsidies (e.g., Miami, Tampa, Boston, and Seattle) or individual forms for each child (e.g., Los Angeles[49]). While we did not discuss this issue with providers, one question to consider is whether requiring separate forms for each child would be more challenging for providers that serve multiple children, and might add significantly to the paperwork burden.

- **Having to interact with multiple agencies/programs.** Providers in some sites had to deal with multiple agencies or programs (described more in chapter 4), which sometimes did not have similar policies or consistent approaches to payment issues. For example, in Jersey City there were different payment policies across the two subsidy programs, while in San Diego there were three agencies administering subsidies, each with its own payment forms.[50] Providers that served children from more than one agency or program could have to follow different rules and fill out different forms for each agency.

These findings make it clear that these requirements varied across sites. Furthermore, providers in some sites noted that the overall burden of participating in the subsidy program was significant. For example, some providers had to hire staff to handle the subsidy-related paperwork. A California provider noted, "Now that we are a big center, I have had to hire four people in the office to do paperwork and bookkeeping. That's the one thing about this program I don't like—it takes time and intelligence—[so you] have to hire someone who understands, not just an assistant."

The challenge for subsidy agencies is to identify ways to be fiscally responsible without creating burdensome requirements for providers. Given insufficient funding levels in some states, it makes sense that agencies want to monitor fraud closely so that the funds are used for families that need them. At the same time, it is important to avoid burdensome paperwork requirements that might affect the willingness of providers to accept families receiving subsidies. Some respondents in our sites noted that the paperwork requirements were one reason some providers would not serve

subsidized families, or not serve families receiving subsidies by a particular subsidy office (as noted in Denver) or from a particular program (as noted in Miami). For example, providers in Miami noted that receiving payments was more difficult under one of their payment programs for a number of reasons, including that "you have to fill out more paperwork." Yet the fact that paperwork requirements appeared to be easier in some sites, and that some sites had taken steps to reduce reporting requirements, suggests that it is possible to achieve a balance between these competing needs, though it may require changes in state policy in terms of the level of information required.

The Timing and Reliability of Payments

Another important piece of the payment process is the timing and reliability of the payments—which affects ***when*** providers receive payments from the agency (in contrast to the issue of ***how much*** providers receive from the agency). Interestingly, this issue came up frequently across a number of our sites, and seemed to be almost as important to providers as the amount they received. (This is not that surprising given that we only spoke to providers that were participating in the subsidy system, and therefore had already agreed to the agency rates.) In our discussions with providers, it became apparent that the timing and reliability of payments can have a significant impact on their financial stability and well-being. As with any business, regular and stable payments are necessary to run a strong business, and to meet overhead costs. While this issue affects all providers, problems with payments are likely to have a disproportionate impact on those providers that are more dependent on subsidy payments.

The timing of subsidy payments is a reflection of both policy and practice. Our case studies suggested that subsidy agencies often follow policies that are very different than providers require of private-paying parents. Furthermore, it appears that there are sometimes differences between the policies that determine when providers are supposed to be paid and how these policies work in practice. We examine two particular issues that respondents discussed—when providers are supposed to be paid in terms of policy, and whether the payments actually arrive on time in practice.

When Are Providers Supposed to Be Paid?

Anecdotal evidence suggests that almost all providers require private-paying parents to pay for the service prospectively (before the service is provided). For example, providers may require parents to pay for the month of service at the beginning of the month, or for the next two weeks of service on a biweekly basis. However, subsidy agencies often do not follow the policies used for private-paying parents.

Subsidy agencies in almost all the ANF sites paid child care providers retrospectively. Only two of our sites—Jersey City and Buffalo—allowed providers to receive voucher subsidy payments prospectively for certain parents (Jersey City would pay

ahead of time for non-TANF parents, while Buffalo would pay ahead of time for some TANF parents).[51] In these cases, the agency would pay these providers at the beginning of the pay period and then adjust payments at the end of the pay period if the child missed too many days, or stopped attending.

Whether states pay retrospectively or prospectively is a complicated issue. Providers were clear that retrospective payments were problematic, as it meant being paid after service was provided and after they have paid out all the overhead costs of providing care for that time period. As one provider in Miami explained, "The reimbursement system is after you have provided everything that you are required to provide, meeting all your standards, then you're paid." This issue may be particularly challenging for providers that have less revenue or that are serving a high proportion of parents receiving subsidies. For example, providers in Los Angeles noted that being paid retroactively can be harder for smaller providers saying, "It is harder to wait a whole month." One small family child care provider in that same site pointed out that she had already spent the equivalent of their payment on supplies before the payment comes. A respondent in one site also noted that retrospective payments can be difficult for smaller programs, though she also noted that programs can sometimes use funds from other funding sources to tide them over until they are reimbursed by the subsidy agency.

At the same time, retroactive payment policies can make sense from the agency perspective since they can reduce agency paperwork by eliminating the need to make adjustments to payments at the end of the pay period when there are fluctuations in a child's attendance. Given many agencies' focus on ensuring that they pay only for hours and days that the child is in care and the parent is authorized, having prospective payments could lead to greater administrative burden, as payments would likely need to be adjusted after the fact and money recouped from providers. Furthermore, prospective payments may sometimes be more complicated for providers as well. For example, a provider in Jersey City (where some providers are paid prospectively) noted that she has had to hire extra staff to check that agency payments are correct since adjustments for absent days and the like are made into the next check. This area needs more research. For example, it seems likely that the complexity of prospective payments for both providers and agencies could be minimized if agencies paid for the full period of service (regardless of absent days) as private-paying parents do.

Two other issues also affect when providers receive payments. One is frequency of payment, which varies across sites. The majority of sites (9 of 17) sent out checks on a monthly basis.[52] Five sites, however, paid all providers every two weeks or twice a month, and three sites varied in how often they paid the provider—either by the type of provider (Minneapolis) or subsidy agency (New York City and San Diego).[53]

A second issue is how quickly the subsidy agency issues the check once the bill is received from the provider. Our site visits revealed that processing time policies varied somewhat across sites, though we only have information on this issue for a subset of sites. For example, in Birmingham, providers submit their bill on the 5th of the month and are to be paid no later than the 15th of the month, while in Los Angeles, providers submit by the 5th working day of the month and are supposed

to be paid by the 20th of the month. In a recent report, administrators reported that the processing time between when a provider submits a bill and when the provider receives payment usually takes between two to three weeks (Schulman et al. 2001). However, as is discussed in the next section, when providers received payment in practice was sometimes very different from the policies governing these issues.

When Are Providers Actually Paid?

Despite the policy about when providers were supposed to be paid, providers and other respondents in the ANF sites reported delays that caused providers to sometimes receive payments far later than the stated policy indicated. These delays, when combined with the delay already inherent in retrospective payments, could result in providers waiting significant periods of time for payments once they started taking care of a child receiving subsidies. Across sites providers and subsidy staff described situations when initial payments had been delayed for several weeks or—in an extreme case—several months.

Before examining these delays in more detail, it is important to note that while some problems with delays were mentioned by at least some providers, caseworkers, or parents in all our sites, these problems were by no means universal. In some sites such reports were less common (e.g., Houston and Birmingham) and in others it appeared that delays had occurred in the past and been resolved (e.g., Tampa and Milwaukee[9]). As is discussed below, some local agencies had also taken steps to address payment issues. At the same time, because of our research approach it was not possible to assess how chronic these issues were within a site. Yet the fact that these issues came up repeatedly across our sites—and have been noted in other research (see, for example, Bordin 2001; Hirshberg 2002)—suggests that these issues are worth examining more closely.

What seemed to cause delayed payments? There seemed to be a variety of reasons behind payment delays. In some cases, the payment delays seemed to be due to things that providers had control over—such as not submitting the information on a timely basis to the subsidy agency, or submitting inaccurate information. In other cases, however, the problem seemed to lie with the subsidy agency.

The most common type of delay discussed concerned initial delays associated with the start-up of payment—meaning that there was an even longer wait for children who had just entered the subsidy system or just started getting served by the provider. While for some providers this initial process seemed to work smoothly, providers and subsidy staff in a number of sites described situations when the initial payment for a child had been delayed for a significant amount of time. For example, a provider in Denver noted

> *We take in a child and we don't get reimbursed for the care of that child for quite some time. If you take in a new child you sometimes get the child care certificate immediately, sometimes weeks later . . . If I weren't a nonprofit with outside funding, it would be difficult to swing this.*

Again, though some of these delays in initial payments were likely owing to provider or parent error (i.e., not returning completed paperwork or documentation on time), others seemed to be related to the complexity of the process required for provider payments to get started. For example:

- Sometimes there were delays in getting the provider's paperwork processed. For example, providers in Miami noted that once a provider returned the enrollment form needed to start care to the office, it could take time to get the payments started because of delays entering the child into the computer system. Similarly, a provider in Boston noted that she had experienced problems because the paperwork did not make it in a timely way "from the voucher counselor to the person that inputs the voucher [into the computer system]."

- Sometimes there were delays verifying that the provider was legal. For example, caseworkers in Boston noted that payments could be delayed while criminal background checks were done for license-exempt, nonrelative providers, which reportedly could take four weeks or longer.

- Some providers in Detroit noted that their initial payments could be delayed when there were delays in getting the family approved. For example, they described the approval process (after parents submitted the paperwork) typically taking 4–5 weeks, though sometimes as long as 2–3 months (or even longer in some extreme cases). A provider noted that "[we] have to wait and wait and wait for weeks. Most of the time we take the children in. But we're still waiting and waiting and waiting. We don't know if this child is going to be approved or not."

- Respondents in Los Angeles reported delays due to the need to transfer documentation about the parent from the welfare caseworkers to subsidy agency.[54] This was an issue that affected families receiving cash assistance that had started with the provider before the payments were set up.

The primary cause of these delays was not always clear. In some cases, it could be due to providers or parents not doing what they were required to, but in other cases it appeared that the agencies were facing challenges with processing payments.

Providers in a number of sites mentioned that they tried to deal with delays in payment by asking parents to pay during the interim period until the late initial payment was received.[55] However, this was not always a viable option for low-income parents, so in many cases it appeared to result in the provider going without a certain portion of his or her income for a period of time. Furthermore, it is possible that providers may not have this option in sites that do not allow them to collect extra fees from parents.

In addition to the delays in initial payments, there were also reports of ongoing delays where the agencies simply did not get the regular payments out in a timely manner. A provider in one site, for example, noted, "At any given time you're in arrears by about two months." While it was often more difficult to disentangle the reasons behind these delays, there were some issues that seemed to affect the timing of these ongoing payments:

- Some providers reported problems that seemed to be related to administrative issues—for example, a Denver provider noted that she experienced delays because the caseworker did not fill out the paperwork or forgot to send the required paperwork to the billing office, while a Boston provider reported that payments could be delayed when caseworkers are on vacation. In addition, a provider in one site reported an incident where the subsidy payment was transferred to the wrong bank account, while in another site providers reported an incident where the subsidy agency's bank account had insufficient funds so the subsidy checks bounced.
- Other delays seemed to be associated with the implementation of changes in the payment system or subsidy program overall. For example, agency respondents in San Diego reported that providers experienced delays in payment when the billing process was shifted from the caseworkers to a central billing office. In addition, some Los Angeles respondents noted that their welfare agency was going through a renumbering process for cases, which was causing problems with provider payments because the subsidy agency couldn't update cases and, as a result, payments couldn't be issued. Similarly, respondents in Milwaukee noted that delays in payments occurred when their new welfare program (W-2) was being implemented. While it appeared that these delays had been temporary in Milwaukee, it was not clear if this was also the case in the other sites.

Many of these problems were likely also related to some underlying administrative challenges that some agencies faced. As noted in the Introduction, at the time of our site visits many subsidy agencies were dealing with the challenges of providing services as their subsidy systems were growing and changing following welfare reform. Furthermore, as is described in the next chapter, some agencies were also struggling with issues such as rising caseloads, staff turnover, and inadequate training and technology, which is also likely to affect agency efficiency around payments.

What impact did the delays have? While we cannot assess the level of impact of the late payments, respondents reported a number of problems stemming from these delays. One issue was the effect of late payments on a providers' financial stability. A number of providers described the significant financial difficulties they faced personally due to late payments. A family child care provider in one site noted that delays in payment

> *[c]an mess you up . . . my whole income, livelihood is child care, and it is screwing up my credit because I am making late payments . . . I am making car payments, house payments . . . I work very hard to keep my credit rating good, and it is getting screwed up because the state is paying late.*

Similarly, a provider in Buffalo noted that she had had to delay paying her mortgage because of delays in payments, and a provider in San Diego reported having to take out a line of credit while waiting for payments. A respondent in Los Angeles also talked about the challenges for providers facing delays—"We hear low-income providers say that if they don't get their check today, they are going to be evicted." A provider in Miami said the struggle with delayed payments is "frustrating sometimes . . . you have to rob Peter to pay Paul to keep it all going." And a provider in San Diego noted the challenges of not being able to pay staff when the payment was late, saying:

I had 35 employees waiting for a paycheck and I didn't have the money because I had so many families on the program. What am I supposed to tell this mother who's worked for me for the past two weeks, who's also getting subsidized child care?

Delays in payment could also compound the challenges noted in chapter 1 concerning failure to get paid during transitions into and out of the system—when payment delays combine with these transitions, providers can end up serving ineligible children for a much longer period before they discover that the children are not eligible for reimbursement.

In addition, some providers discussed how delays in payment made it more difficult to provide good quality care. For example, a provider in one site said that delays in payment and the low payment rates had made it difficult to retain employees: "you can't give a good salary, because the money doesn't come in." A provider in another site noted, "I just lost a good employee because I could not pay them" because of delays in the payment from the subsidy agency. Similarly, a provider in one site commented, "How can you keep quality [when you don't have the money] . . . One of my staff members quit because she didn't get paid for 3 weeks, can you blame her?"

The impact of late payments on the willingness of providers to serve subsidized families is more unclear. Some respondents reported that payment issues affected the willingness of providers to participate in the subsidy system. A Los Angeles respondent noted that providers that have had bad experiences with the payment process tend to be reluctant to provide services to families receiving subsidies, saying, "Generally our experience is that providers are very trusting people and very willing. But when they get burned, they get burned badly." A respondent in another state noted that many providers would not touch subsidies because of problems with the payment and authorization processes. Parents also recognized that payment delays created challenges in their effort to find providers. For example, a parent in one site said, "A lot of providers won't take [subsidies from one agency] because they have to wait six weeks to get paid." Another parent from that same site noted that the payment delays would have made it difficult for her to use a provider other than her mother—stating that if she had used another provider "they would have kicked . . . [my] kids out . . . [trying to get payments started] is a runaround."

Yet it was also clear that a number of providers were willing to continue in the subsidy system even if there were problems with late payments. In some cases, it appeared that providers continued to accept subsidies because they knew they would eventually get paid. As a provider in El Paso noted

For the most part, new providers and providers trying to just get started . . . they know that CCMS is a sure way of getting paid, to get you on your feet. That's something you want to keep.

More research needs to be done to determine how these issues play out for different providers, though it seems likely that the impact of late payments may vary by the type of provider.

What steps were agencies taking to address these problems? As noted earlier, providers in some sites did not seem to have as many complaints about delays in timing, suggesting that some agencies were able to get their payments out in a timely way. While we did not systematically collect information on this issue, it did appear that some agencies placed a high priority on getting the payments out efficiently. For example, caseworkers in one agency were committed to getting the checks out on time and had staff stay late to process checks. Providers we spoke with in this site felt that the payment process worked well and generally spoke very positively about the subsidy agency. One provider noted that "issues such as when am I going to get my check have literally been erased" because of the way subsidy payments are handled by that agency. Some other agencies, however, appeared less committed to making sure payments were out on time. For example, providers in one site discussed some caseworkers' lack of concern about payment problems. One provider was perplexed by this attitude: "Anyone working in the child care industry is already working with low, low wages. And if any payment is held up for any reason, it must be of utmost concern to you."

Other sites seemed to try to take steps to try to reduce the incidence of specific problems—particularly around getting families initially into the system and the payment started. For example, Minnesota had developed an expedited care system, which was used for families that required immediate authorization for care. With expedited care, the caseworker could authorize up to 30 days of care without the required verification, so that parents could begin receiving subsidies quickly.[56] Similarly, Michigan had created the Quick Start program, which was designed to get payments to the provider faster. The state could authorize payments to the provider with minimum verification under this program, so that payments could begin faster. While these policies were designed to help to speed up payments, we were not able to ascertain how effective they were.

Conclusions

How much providers receive in payment is only one of the issues that can affect subsidized providers. The process that providers have to complete to become authorized for the subsidy and to get paid, and how reliable the payments are, can also affect the experiences of providers in the subsidy system. When these payment processes work well, they can offer providers a reliable form of payment. However, when the processes do not work well, they can add a layer of complexity and can result in financial instability for some providers.

Chapter 4. Factors that Shape Providers' Overall Interactions with the Subsidy System

In addition to policies and practices centering on payment issues, some broader issues related to how the subsidy agency operates can affect a provider's experiences with the subsidy system. In particular, these issues center on providers' interactions with the subsidy agency overall—whether it be trying to set up payment agreements, dealing with payment problems, or just trying to help the families they serve. Providers in our site visits described these issues at length, making it clear that the quality and ease of these interactions can shape their experiences with the subsidy system and affects their relationship with the subsidy agency. These interactions therefore seem likely to affect the willingness of providers to participate in the subsidy system, as well as the roles that the provider is willing and able to play in the subsidy system. For example, if providers have difficulty contacting a caseworker or resolving problems, or feel that they are not respected, they may be less willing (or able) to assist parents as they try to navigate the system.

Providers discussed a number of issues that affected their overall interactions with subsidy agencies. These could be grouped into four broad topics:

- How many agencies providers have to deal with;
- How agencies are set up administratively to deal with providers;
- How easy or difficult interactions are with the subsidy system; and
- To what extent child care providers are seen as partners.

Number of Programs or Agencies

One issue that can affect providers' experiences with the subsidy system is the number of subsidy programs or agencies operating at the local level. In sites with multiple programs or agencies, child care providers serving more than one subsidized child may have to deal with multiple agencies and programs, each with its own rules and requirements.

In fact, in the ANF sites it was not uncommon for there to be multiple entities that the provider had to deal with—because there are multiple subsidy programs or multiple agencies administering subsidies. In fact, there were three ways in which a provider might end up having to deal with more than one subsidy agency or program:

- Nine of 17 sites[57] had multiple subsidy programs. In some cases, there were separate programs for welfare and nonwelfare families, in some there were separate contracted and voucher programs, and in others there were smaller subsidy programs that served specific types of families (teen parents, migrants, and so forth).
- Eight of 17 sites had multiple agencies or units within an agency administering subsidies.[58] In some cases, there were separate agencies or units administering subsidies that loosely corresponded to a TANF/non-TANF division (as in New York City, Buffalo, and Minneapolis).[59] In other sites, there were multiple agencies within a locality providing the same services.[60] For example, there were 10 local agencies in Los Angeles administering the subsidy program. These agencies did not necessarily have the same policies and procedures.
- Finally, even in sites with a single agency or program, providers may have to deal with multiple agencies if they live close to the agency's jurisdictional borders, particularly in states with smaller subsidy jurisdictional areas. For example, providers in Denver, which has a county-based system, noted that they can receive subsidy payments from different counties.

Where there are multiple agencies or programs, providers may face different policies and practices. For example:

- Providers in Jersey City faced different payment methods for the subsidy program for welfare and nonwelfare parents—the subsidy program reimbursed providers for child care prospectively for non-TANF parents and retrospectively for TANF parents.
- Respondents in Seattle noted policy differences between the low-income subsidy program and the smaller subsidy programs for special populations.
- Respondents in San Diego noted at the time of our site visit each of the three local agencies that administered subsidies had different forms and pay schedules, which meant that providers serving children from more than one of these agencies would face different procedures.
- Counties in Colorado have significant discretion over many of the major components of the subsidy program, such as reimbursement rates and administrative procedures. Consequently, providers in Denver that serve children from across the county line are likely to face different rates and reimbursement procedures.

In addition to these obvious differences, agencies' cultures and quality of service can differ. Our site visits revealed significant differences in agency culture and service quality both across and within sites, suggesting that providers may face a range of other differences in dealing with different agencies as well.

However, having multiple agencies or programs is not necessarily a problem in and of itself. Instead, the issue for providers is whether the presence of multiple agencies or programs requires them to juggle different requirements and procedures. Subsidy agencies can address the potential challenges associated with interacting with multiple agencies by working to standardize their policies and procedures to the extent possible, particularly in those sites where providers are likely to face multiple approaches. For example, respondents in Washington discussed how they

are trying to make policies more uniform across programs. In addition, since the time of our site visit, the local agencies in San Diego have taken steps to align their policies and practices.

Staffing Responsibilities within the Agency

Another organizational issue that can affect providers is how the staffing responsibilities are set up at the local agency—in particular, where the payments are handled and where that is in relation to the parent's caseworker. These issues can affect the ease of the interactions that providers have with the subsidy agencies—both in terms of resolving payment issues and being able to advocate on behalf of the parent—because they determine how these two components are connected within the organizational structure.

Agencies appeared to vary in how they set up the staffing responsibilities in regards to providers. In the sites where we have data, we found that payments could be handled by a separate billing office (e.g., Jersey City, Miami, Denver, and for some parents in Buffalo and San Diego), by a financial department within an office (Birmingham), by the same caseworkers that managed the parent's case (e.g., for some parents in Buffalo and San Diego), and by the state agency (e.g., Detroit, Milwaukee, Seattle). In some of these sites (Buffalo and San Diego), how the payments were handled varied by the local office. One site—the agency we visited in Miami—had an unusual approach; providers were assigned to a particular caseworker, and parents were assigned to the caseworker who worked with that provider, though payments to the provider were handled in a separate billing office.

Each approach had definite trade-offs. Having the same caseworkers handle provider payments and parent subsidy issues may make it easier for the worker to address the range of problems that a provider may have, and can make it easier for providers to advocate for the parent because the caseworkers are familiar with both sets of issues. However, this approach also means that the caseworker needs to understand a wider range of issues and have a smaller caseload that allows the worker to handle a wider range of tasks—though, as will be discussed later, this does not always occur. Without this, the broader responsibilities could result in poorer quality service.

On the other hand, having a separate office handle the payments (either locally or at the state level) allows for specialization on the payment issues, which could improve the quality of that service. Yet, depending on how it is managed, it could make it harder for providers to deal with problems involving the parents they serve. As a respondent in Denver noted, a separate payment office can make it challenging when providers call the parent's caseworker about a payment problem—"it is harder because . . . [the caseworkers] don't have a grasp on [the payment]. When a provider calls . . . [the worker] to complain about not getting a check, . . . [the worker] can't help them." Providers seemed to feel that this was exacerbated by the administrative structure in Denver—a provider noted, "It almost appears as if it is two separate organizations and that they have no interconnected computer systems." In addition,

having the two systems function separately may also make it more difficult for providers to advocate for parents—which is something that many providers across our sites reportedly did—since the provider may only have a relationship with the payment office and not the parent's caseworker.

Ultimately, however, each approach has strengths and weaknesses. The effectiveness of either approach depends upon the level of communication and trust between the provider and child care agency, how efficiently the systems are set up (e.g., adequate staff and computer systems), and whether caseworkers have the knowledge and time to deal with these issues. Lack of communication and trust can undercut the efficiency of each approach as well.

Interactions with Caseworkers

One of the primary ways that providers interact with the subsidy agency is through direct interactions with caseworkers. These interactions give providers a human connection to the subsidy system, and therefore can significantly affect providers' subsidy experiences. Instances where providers feel disrespected or ignored can make their experiences with the subsidy system more difficult, while positive interactions can help create a strong relationship between the provider and the subsidy agency.

As with our parent focus groups, providers talked quite a bit about their interactions with caseworkers. Providers described both positive and negative experiences. In some cases, providers described situations where staff were helpful and willing to be flexible for providers. These positive interactions seemed to foster a better relationship between the providers and subsidy system and helped things run more smoothly as problems were resolved. However, we also heard of interactions at sites that were less positive. In a number of sites, providers discussed experiences where caseworkers were disrespectful, difficult to get a hold of, or generally unresponsive to their problems. For example, providers in one site described the poor treatment they received from the caseworkers in one agency that acted "as if they are going into their own pocket to pay you." Some providers also described challenges in reaching caseworkers. For example, a provider commented "you'll be all day trying to get through" to someone by phone. Parents in our focus group corroborated these findings (see Adams et al. 2002).

The quality of the interactions also varied across agencies within a site, and sometimes within a single agency—one provider in Detroit discussing problems with payment delays noted "in all fairness, it's not every worker. 'Cause some workers, they'll put you right on [i.e., the paperwork is processed quickly, so provider can get paid]. Or they'll at least communicate with you." Similarly, in some focus groups, providers would identify one or two caseworkers that they felt were responsive, and urged other providers to try to get in touch with those workers when they had a problem. They would also sometimes identify particular caseworkers that should be avoided.

While a number of the complaints may be griping on the providers' part, it would be a mistake to dismiss all concerns this way. As was true about parent concerns, we

found that many of the providers' concerns seemed to have their roots in more fundamental structural and administrative issues including:[61]

- **Rising caseloads.** Respondents in a number of sites reported that rising caseloads of subsidy staff affected the quality of services provided by some subsidy agencies. While respondents often related these rising caseloads to poor quality services for *parents*—in terms of creating situations where there were long waits at the office, difficulty with contacting a caseworker, or delayed appointments—it is likely that these issues also had an effect on *providers*. For example, high caseloads and inadequate staff may be behind the provider reports about difficulties in contacting caseworkers or delays in processing paperwork.
- **Staff turnover.** In a number of sites, both administrators and providers saw staff turnover as a problem. For example, one respondent noted that county staff jobs "were so undesirable that [the subsidy agency] couldn't bring anyone in," while a provider in another site commented that one family had five different caseworkers handling their case over a five-month period. Providers were very aware of the staff turnover issues in their sites and recognized that it may be the reason behind some of the poor service they experienced. In particular, staff turnover can—in the words of one provider—lead to situations where there are "underqualified staff persons who don't understand the program."
- **Inadequate access to training and technical support.** Caseworker training and local infrastructure can also affect how services are delivered to providers, and a number of sites were struggling with inadequately trained staff or ineffective computer systems. For example, respondents in Minneapolis commented that the billing system was archaic. It also appeared that in some other sites some aspects of payments were handled by hand. Providers also recognized that there were training and technology issues in their sites. Some providers noted that caseworkers had limited training and knowledge about the policies of the program, and had inadequate technical support to carry out their jobs. One provider noted that she would hear caseworkers "shuffling through papers" whenever she called.

All these issues can create a system that is less responsive to the needs of both parents and providers. Furthermore, these problems can be directly related to the issues identified in the Introduction—specifically, system growth, inadequate funding, and administrative changes.

Extent to which Providers Are Viewed as Partners

There was another, less tangible issue that seemed to affect the relationship between subsidy agencies and providers, which seemed related to the extent to which the subsidy agency saw providers as an integral and important part of the system. While it is not possible to categorize each subsidy agency along a continuum of viewing providers as partners or adversaries, there was clearly variation on this issue. On the one hand, at some agencies administrators and caseworkers spoke positively about providers, seemed to recognize and respect their needs, worked hard to get payments

out on time, and identified ways to try to keep them involved in the system (i.e., through ongoing communication and strategies such as provider advisory boards).

On the other hand, other agencies appeared to view providers more as adversaries—for example, caseworkers would speak disparagingly about providers, and communication seemed minimal. This may have developed because of past negative experiences with some providers or because—at least in some sites—caseworkers did not feel they should interact with providers since their obligation was to the parent. For example, a caseworker in one site noted that providers were not their clients—specifically "[caseworkers] don't have a case with . . . [providers]." Similarly, a provider in another site said, "[caseworkers] say we won't speak to the provider, we speak to clients." There was wide variation both within and across sites in where different agencies fell on this continuum, suggesting that some of these issues are at least in part due to local agency leadership and culture, and not solely due to policies and resources.

The relationship between agencies and providers is not only important because it affects the provider's experiences with the system, but also because providers can play a significant role in facilitating parent's interactions with the subsidy system. This role is particularly important given the challenges families can face accessing and retaining subsidies (Adams et al. 2002). Providers are an important source of help and support to families (Shelton 1999) and our site visits revealed that providers assisted parents in a number of ways:

- **Providers told parents about the availability of subsidies.** Respondents in many sites noted that parents often find out about subsidies through their provider.[62] For example, a Miami respondent said that when providers know a funding freeze has been lifted by the subsidy agency, they will begin to refer families to the subsidy agency again. Similarly, a number of parents we spoke with said that they originally learned about subsidies through their child care provider.

- **Providers reminded parents to recertify.** Providers in a number of sites (including Miami, Detroit, Minneapolis, Houston, and El Paso) monitored the recertification dates of the subsidized children in their program. For example, providers in Houston described keeping a book or dry erase board with their clients recertification dates on it, so they can help parents remember. In some sites (Tampa, Detroit, and Minneapolis), the subsidy agency would record the date of the parent's recertification on the monthly attendance form, which may help foster agency-provider communication and help providers remind parents.

- **Providers helped parents complete subsidy requirements.** Providers in New Jersey, Boston, and El Paso helped parents complete their subsidy requirements or advocated for parents when problems occurred. For example, providers in Boston said they will assist the parent with their paperwork to maintain eligibility, with one provider noting that she will go out of her way to "take parents to the welfare office to make sure that they get a voucher in one day." Another provider in that site remarked, "We end up tracking down voucher workers, advocating for families."

Obviously some of providers' concern about a parent's subsidy is self-interest, in that providers do not want to lose the voucher. However, it was also clear that many providers had the interests of their families at heart—one provider noted, for example, that providers have a stronger incentive to advocate for the parents than do caseworkers, given that providers see the parents and know them personally. As she noted, "It's easy not to return phone calls if you are a voucher worker. But if you are in a center, and mom shows up with the kids and her voucher has expired, it puts you in a horrible position." In some ways, providers are well suited to play this facilitating role because they see parents frequently. A respondent in San Diego noted that employment case managers are trained that child care providers are their best friends because they see TANF recipients five days a week. As a consequence, subsidy agencies may benefit from finding ways to communicate with providers and keep them informed—such as through advance notifications of changes, putting the recertification date on the attendance form, and so forth. However, each agency's approach may need to differ depending on its rules around what client information can be revealed to providers.

Conclusions

While many policymakers focus on broader policy issues, this research suggests that providers' experiences with the subsidy system can also be affected by a number of underlying administrative issues, including the number of agencies providing subsidies, how caseworker responsibilities are allocated, caseworker-provider interactions, and the extent to which providers are seen as partners. These issues can all affect providers' experiences in ways that may also ultimately influence their willingness to serve families receiving subsidies. They may also affect the ability of providers to play the under-recognized role of facilitator for parents as they navigate the subsidy system.

PART III

Summary and Implications

Providers are a critical component of the child care subsidy system, and play an essential role in achieving the social goals of subsidies and welfare reform. As one caseworker put it, "we [caseworkers, parents, and providers] are a triangle here." Yet, despite their importance, researchers and policymakers have paid relatively less attention to understanding the policies and practices that affect providers. The research presented here takes an initial step in this direction, and shows that there are a number of policies and practices that can affect the amount of money that providers receive, how they receive it, and how easy or difficult it is for them to work with the subsidy system. Each of these, in turn, has implications for the willingness and ability of providers to participate in the subsidy system, and therefore seems likely to be relevant to the question of whether children receiving subsidies have equal access to the range of providers available to nonsubsidized children.

This chapter pulls together the major findings of this report and discusses some of their implications. It then lays out some of the promising principles and practices that could be implemented by policymakers and others interested in addressing these issues. It concludes with a discussion of some of the opportunities and challenges presented by the current context.

Major Findings and Their Implications

When looking across the issues described in this report, a few overarching findings emerge that have implications for policymakers, administrators, and providers.

Providers Are Essential to Achieving Multiple Subsidy and Welfare Policy Goals

Child care providers are key to achieving the larger goals of both the subsidy system and the welfare system. This occurs in three ways. First, providers provide the service that allows parents to work and stay (or become) self-sufficient, and therefore are key to any effort to reduce welfare and support self-sufficiency among low-income families. As a provider in San Diego noted

> *You know what? We [as subsidized child care providers] are the most important part of this game—if we do not do this child care, you cannot mandate these people [to go to] a welfare to work program. If the children are not being taken care of, you cannot go to work.*

As a consequence, any policy that affects the willingness of providers to serve subsidized children is likely to have a corresponding impact on the larger social policy goals of supporting work and minimizing welfare.

However, helping parents work is only one of the roles that providers play. They also provide environments where children spend a significant number of hours each week—which means that the quality of the care they provide affects the development and well-being of low-income children. This is particularly important given that many of these children are considered to be at-risk of school failure, and are therefore of particular concern to policymakers.

Finally, providers can be an important partner for subsidy agencies in helping parents get and retain subsidies. This is particularly true given the challenges that eligible families can face in trying to access and retain subsidies, and the numerous interactions and requirements that are required (Adams et al. 2002). It was clear from our site visits that providers can help families navigate these requirements, and can—*if* they are informed and supported—support caseworkers in this process. A provider in El Paso noted, "We're doing everything for the parents. We become not only the child care providers, but we're the social workers."

A Broad Range of Policies and Practices Interact to Affect the Provider's Bottom Line

Understandably, policymakers and providers have focused attention on reimbursement policies. How much providers are paid by the subsidy agency is obviously critical, as it affects whether providers are able to cover their costs (and therefore stay in business) and the quality of care they provide. Traditionally, the primary focus of attention has been on where the state sets its reimbursement ceiling (for example, whether the state sets its rate ceiling at the 75th percentile of the local market rate) and whether the state has higher reimbursement ceilings (differential rates) for particular types of care. However, the data in this report suggest that reimbursement rate ceilings are only one piece—albeit a very important one—of a much larger set of policies and practices that can affect how much providers receive in payment. How much a provider receives is dependent on a complex mix of factors, including the provider's own rates and fee structure, subsidy policies and practices around rates and fees, and the policies and practices governing the process of receiving payment.

When examining how these factors interact to affect the bottom line of providers, it is useful to recall the CCDF principle of "equal access." This principle states that subsidized children should have equal access to child care that is comparable to the care available to nonsubsidized children—which is in turn related to the suggestion that child care providers should generally be reimbursed the same rate that they charge private-paying parents, as long as it doesn't exceed a state maximum. According to our research, a number of factors can, in fact, affect whether providers will be paid as much as they would be paid to serve a private-paying parent (as long as it is under the state cap). These include:

- What is the maximum amount that the state will pay—does the provider's rate (what they charge private-paying parents) fall at or below that level? Or will providers have to take a cut in their rate if they want to serve subsidized children (or try to recoup it from other sources or, if allowed, from parents in addition to the existing parent fee)?
- Do providers get paid for absent days as they would with a private-paying parent?
- Do providers get paid for extra fees that they charge private-paying parents—such as registration fees or fees for field trips?
- If providers start out with an agreement to provide full-time care, do they get paid for full-time care the entire time they serve the family as they would likely require of private-paying parents?
- Do providers get paid for the full period of time they serve the family, as would likely occur with private-paying parents?
- Do they get advance notice if a child's subsidy is terminated, as they would likely require of private-paying parents?
- In addition, are providers able to collect the relevant payments from parents—whether it be only the parent fee, or asking the parent to also make up the shortfall between the state payment and their actual fees?

Subsidy agencies clearly face some challenges in trying to move towards policies that use similar market practices governing private-paying parents. This is partially because some of these issues may be determined through state laws that may be difficult to change, though some can be affected by local implementation. In addition, given that subsidy agencies do not have the resources needed to serve all eligible families, they have to make direct trade-offs between serving more children with lower payments or fewer children with higher payments.

However, it is important to see how the cumulative impact of all of these policies and practices can affect the bottom line of providers. Box 3 illustrates how these issues might work together to affect how much an individual hypothetical provider receives under three different scenarios during a five month period (Appendix 3 provides more detailed information, including how much this provider receives each month). Five months is not an unusually short period of time given that recent research found the average period of consecutive subsidy receipt for families ranged from 3 to 7 months in the five states studied (Meyers et al. 2002). In all three scenarios, this provider charges $445 per month (which is below the state's rate ceiling), has a $65 initial registration fee, and a $10 field trip fee for each trip taken. In addition, in these three scenarios the parent loses her job in the middle of the third month.

The first scenario details what the provider would receive in payment with a private-paying parent. Private-paying parents are more likely to have to pay for full-time care, to pay for the entire period of service (and, in fact, usually pay up-front), provide advance notice of termination, agree to pay additional fees, and so forth. Such policies are considered reasonable and customary, as providers have to cover the cost of the full-time slot even if the child is not there, it can take providers some time to fill a slot, and many of their costs are fixed. (It is important to recognize

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Box 3. The Financial Bottom Line of a Hypothetical Child Care Provider under Three Scenarios over a Five-Month Period

Note: These scenarios are hypothetical, and are not meant to represent any particular site. For more detailed information about these three hypothetical scenarios, see appendix 3.

The Parent/Provider Situation: Parent enrolls her child in the provider's program. The provider charges $445/month, has a one-time initial registration fee of $65, and a $10 field trip fee (which occurs in the second month the child is in care). In the child's third month of care, the child is sick for six days. Halfway through that same month, the parent loses her job. In all scenarios, it takes the provider two weeks to fill a vacancy.

In the subsidy scenarios below (the "better" and "worse" scenarios), the parent begins to receive subsidies at the same time she starts her child with the provider. When she loses her job, she is given subsidies for two weeks of job search but is unable to find a job. As a result, at the beginning of the fourth month she is given a two-week advance notice that she will be terminated from the subsidy program, and loses her subsidy midway through the fourth month.

THREE SCENARIOS

Private-Pay Scenario: Parent must pay all fees at the beginning of month, with no discounts for absent days. Parent must give two weeks advance notification of leaving the program, and does so halfway through the fourth month, leaving the program at the end of the month. A new private-pay parent begins care at the beginning of the fifth month paying the provider the monthly fee and registration fee at the beginning of the month.

Provider receives a total of $2,365, spread fairly evenly across the five-month period.

"Better" Subsidy Agency Scenario: The subsidy agency pays retrospectively. Agency pays registration and field trip fees, as well as covers all absent days. Agency requires parent to provide proof that copayments are paid. Agency notifies the provider in advance (at the beginning of the fourth month) that the parent will be terminated midway through the fourth month. The provider replaces the subsidized parent with a new private-pay parent, who begins care midway through the fourth month, paying the provider the monthly fee and registration fee at the beginning of the month.

Provider receives a total of $2,365, though monthly payments are consistently one month later than under the private-pay scenario because of retrospective payments.

"Worse" Subsidy Agency Scenario: The subsidy agency pays retrospectively, does not pay registration and field trip fees, and limits the number of absent days it will cover. It does not have policies to help providers collect parent fees. The subsidy agency makes initial payments late and fails to notify the provider that the parent was terminated from subsidies. As a result, the provider does not find out that the parent was terminated from subsidies halfway through the fourth month, until it shows up on the reimbursement midway through the fifth month. The provider requires the parent to leave immediately, but is unable to find someone to fill the slot until the beginning of the next month.

Provider receives a total of $1,558, spread unevenly over the five-month period due to late initial payment.

The reduction in the provider's payment is because: the parent is unable to pay some fees (–$40), the subsidy agency does not cover two absent days (–$35), the provider serves the parent for a period of time unaware the parent is no longer eligible (–$223), and the provider is unable to fill the slot until the beginning of the next month (–$445). The provider also has not yet received the $65 registration fee from a new parent—which shows up in the preceding scenarios because the provider has already filled the vacancy—though this will be eliminated in month 6 when they fill the vacancy.

that providers may not get all payments from private-paying parents, though most providers generally minimize the risk of uncollected funds by requiring up-front payments from parents. It is also possible that a parent may leave the provider at the end of the month without providing advance notification.)

The next two scenarios detail what the provider would receive in payment if they served a subsidized child. In these scenarios, the state has agreed to pay $385 per

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month for the care of this child (which is paid retrospectively), and the parent is assessed a parent fee of $60 per month.

- In the "better" scenario, the agency has policies and practices that are more supportive of providers (i.e., pays for registration fees and field trips, covers all absent days, sends out termination notices, and requires parents to get a receipt from provider that parent fees are paid). An even easier scenario from the provider's perspective might be that payments are made prospectively or that the state collects the parent fee, though that is dependent on how this policy is implemented by the subsidy agency.
- In the "worse" scenario, the agency has policies and practices that are less supportive of the provider—in particular, this agency has problems with delays in initial payments, and does not pay for registration fees and field trips, cover all absent days, or send out notices of terminations in a timely manner.

Note that these two scenarios are hypothetical and represent two points along a continuum of potential policies and practices a subsidy agency may have in place. In fact, it would be possible to create a hypothetical site that was even better from the provider's perspective than the one described here, as well as one that is worse than the "worse" scenario. While all the policies and practices are drawn from the sites we visited, these scenarios are not meant to depict real sites. Given the nature of qualitative research, we do not know where our sites fall along this continuum. We also do not know how many providers experience all of the problems that are depicted in the "worse" scenario with one family over a short time period. These hypothetical scenarios, however, are helpful in illustrating that subsidy policies and practices can have a major—though somewhat hidden—impact on the bottom line of providers that serve children in the subsidy system when contrasted to what they would get (at least in theory) from private-paying parents. This occurs in two ways:

- **How much the provider receives.** With a private-paying parent, the provider receives $2,365 across the five-month period. Under the "better" scenario, the provider actually gets the same amount that they would get from a private-paying parent. However, under the "worse" scenario, the provider receives $742 less than what the provider receives with a private-paying parent—or 30 percent of the payment they were due—because of the subsidy agency's policies and practices.[63] For example, not receiving the notice that the parent is to be terminated ultimately results in the provider not receiving six weeks of payments for that slot. In addition, not receiving payment for all absent days results in the provider receiving $35 less for the third month of payment.
- **Timing and regularity of payments.** In contrast to private-paying parents, the subsidy agency in both the "better" and "worse" scenarios pays the provider retrospectively. If the subsidy agency pays the provider on time—as occurs with the "better" scenario—the provider initially experiences a lag in payments, but then receives payments on a timely basis each month, though always one month behind (see appendix 3 for monthly breakdowns for all three scenarios). In the "worse" scenario, the one-month initial lag due to the policy to pay retrospectively is

compounded by a delay in payments. As a result, the provider experiences two months without payment, which can be challenging since they do not necessarily know when they will receive the payment. This can affect the overall financial stability of a provider, particularly providers with limited funds to cover this time period.

Both of these issues are likely to have real implications for the willingness and ability of providers to participate, and to their financial well-being and stability. Furthermore, it appears that addressing some of these issues may in fact have a significant impact on the financial well-being of those providers already in the system. However, these changes are also likely to have cost implications for the subsidy agencies.

Other Factors Can Affect Equal Access

In addition to affecting the bottom line of how much providers receive, it also appears that there are a number of more subtle policies and practices that are likely to affect how easy or difficult it is for providers to participate in the subsidy system. These range from how easy it is for them to get a payment agreement with the state, how easy it is to deal with paperwork requirements to get paid, the extent to which they can count on receiving the payment on time, how consistent the paperwork and procedures are across different subsidy agencies, and how easy it is to deal with the agency and caseworkers.

These issues combine with the question of how much providers receive in payment to affect the total experience of providers in participating with the system. In many ways, it is the combined impact of these issues that creates the "real" cost or benefit of participating for the provider. Providers and other respondents made it clear in focus groups that these issues are also weighed in the balance when providers consider participating, and can affect who is willing to accept subsidies. Furthermore, these issues also can affect the provider's financial well-being (i.e., if payments are not timely) as well as their ability to help parents navigate the subsidy program. While some issues are directly related to policies that can be set at the state level, others are related to how policies are implemented in practice, rather than to the policies themselves. As a consequence, it can be important for state agencies to not only examine their provider-related policies, but also to examine how local agencies are running and managing their provider-related processes, to better assess whether the policies are being implemented as planned.

Policies and Practices that Affect Providers May Also Affect Quality of Care

The fact that subsidy policies and practices can affect the amount that providers receive (as described above) as well as their financial stability, suggests that they may also affect the quality of care that providers are able to give. Many providers had serious concerns about whether the amount of money they received to care for young children was sufficient to provide good quality care that would support chil-

dren's development, as well as the effects of irregular payments on the quality of care they provided. While not the focus of this report, their concerns often focused on the impact of the level and stability of subsidy payments on staff salaries, staff turnover, and materials. It is also important to recognize that there are some more systemic issues beyond subsidy policies that can affect the quality of care that subsidized providers can provider. These are discussed in more detail below.

Provider-Related Policies and Practices May Affect Different Providers Differently

This research suggests that providers are likely to be affected by the entire range of subsidy policies and programs—both those that affect their bottom line and those that affect their experiences with the system. However, our site visits suggested that how policies and practices affect a provider may well vary depending upon the provider's characteristics. For example, while some providers were reportedly unwilling to accept subsidies, there were other providers that actively sought families receiving subsidies even though they may experience delays in payments or other challenges. Provider comments suggested that there may be at least three types of providers that may react somewhat differently to subsidy policies and practices, though this information is anecdotal and needs to be examined further (which we plan to do in our future research):

- **Providers that are less motivated to serve subsidized children, and have other alternatives.** Some providers have access to other options besides serving subsidized children—such as access to parents that can pay the full cost. Discussions with providers suggested that if these types of providers receive their rates and are treated well by the subsidy agency, they may participate in the subsidy system. However, these providers may be less likely to participate in the program (or may be likely to limit the number of subsidized children they will accept) if the payment is significantly less than they would otherwise get or if the administrative hassles are too great. These providers may decide that it is not a good business decision to participate since they have better alternatives—as one provider noted, "You can't run a business with such bad debt." This could, if true, result in subsidized children having less access and fewer options to such programs.
- **Providers that see serving low-income children as part of their mission and/or that have identified alternative funding sources to cushion funding challenges associated with vouchers.** Our data also suggest that some providers serve low-income families as part of their mission and have identified other funding sources to cushion any financial challenges they may face serving children receiving subsidies (for example, through funds from other parents, local philanthropies or public funding sources). These providers may decide to serve parents receiving subsidies even when there are inadequate payments or administrative difficulties. They can do this because they have identified ways to handle the lower subsidy payments and any delays in payment financially, though they may limit the number of children served. As one Oakland provider noted, "I think it is good that I got some other children besides the ones on subsidies, otherwise I would be losing quite a bit." Other providers similarly noted the value of having diverse funding sources to soften the impact of subsidy policies and payments.

- **Providers that serve predominantly low-income children and have few other options.** Some providers, however, may be more likely to overlook payment problems or administrative difficulties because they have few other alternatives—for example, providers that have less access to private-paying parents who can afford their rates, or cannot access other sources of income. For this latter group of providers, accepting subsidies may still be relatively more advantageous because they know they will get paid the majority of what they are owed from the agency even if payments are delayed or they are unable to collect the full amount. These providers are particularly interesting, as subsidies can have a unique impact upon them. On the one hand, a subsidy system that works well can play an important role in supporting and stabilizing such programs, and thereby potentially could support the supply of care and improve the range of choices available to low-income families in that community. On the other hand, if the system does not work well, such providers are much more vulnerable, in that problems with payments are more likely to affect the entire budget of the program—which can lead to financial instability and seems likely to affect the quality of care they are able to provide. This is reflected in the quotes earlier from providers that noted having to take out second mortgages to deal with late payments, and whose credit rating was threatened by payment problems.

Finally, while we did not examine these issues in this study, it is important to recognize that subsidy policies and practices are likely to play out somewhat differently for kith and kin care providers (i.e., relatives, friends, neighbors). This group of providers is critical to the subsidy system, though research suggests that their motivations for providing care may be different than other types of providers (Galinksy et al. 1994, Kontos et al. 1995). Additional research on how subsidy policies and practices affect these providers is essential to identify the unique ways in which they are likely to be affected by different subsidy approaches.

Strategies to Address Providers' Needs

As has been noted throughout this report, there were agencies and sites that had implemented policies or strategies that seemed to provide more support to providers in the subsidy system. Some of these strategies are highlighted in this section—and are presented as a short check list in box 4. In reading these strategies, please note a few caveats. First, this should be seen as only a preliminary list of strategies based on the sites we visited. There are likely to be a number of other interesting strategies in place in agencies around the country that should be explored further. Second, this is a broad list of strategies that can support providers. Some of these issues may require changes in state legislation or state policy, while others may require changes in how policies are implemented or how subsidy agencies are managed.

Third, while each of the strategies described can be seen as supporting the larger principle of equal access as put forth in the CCDF—as they are designed to minimize the direct or indirect costs that providers may face in serving children on subsidies—administrators obviously face a complex series of trade-offs in implementing

Box 4. Strategies to Address Providers' Needs

Many policies and practices that subsidy agencies have implemented seem to better support providers in the subsidy system. The list below is based on strategies used by agencies studied in our ANF site visits. This is a preliminary list. There are, no doubt, many other interesting policies and practices in other agencies around the country.

"BACKWARD MAPPING"

One approach to assessing social service systems is to examine how the system works from the provider's perspective and then to work backwards into identifying the causes of the problems uncovered and finding possible solutions. This could involve asking the following questions:

From the providers' perspective, how easy or difficult is it to participate in the subsidy system? (This can be assessed through provider surveys or focus groups.)

Where there appear to be challenges, where do they come from? State or local policy requirements? Local agency practices or leadership? Agency resources? Individual caseworkers? Some combination of the above?

Are these situations necessary from the agency's perspective? What alternatives can be implemented to better meet the needs of providers?

DEVELOPING STRATEGIES THAT CAN SUPPORT PROVIDERS

1. Examine the extent to which subsidy system policies and practices follow market practices. Subsidy agencies can examine policies and practices around:

- Where market rate ceilings are set and how market rate surveys are conducted.
- How differential rates are implemented, whether providers below the reimbursement ceilings can access these higher rates, whether providers know about these rates, and whether differential rate levels are sufficient to cover the cost of providing the care.
- Whether absent day policies reflect how providers charge private-paying parents.
- Whether reimbursement policies recognize special fees—such as registration fees and field trip fees—that providers may charge private-paying parents.
- Whether paying providers prospectively is feasible within the context of agency procedures around monitoring payments and fraud.
- Whether there is clear communication between the agency and providers about when payments are initially authorized and when they are terminated, to minimize the likelihood that providers unknowingly serve children during times they are ineligible.
- Whether subsidy agencies follow provider policies about giving providers advance notice prior to termination.

2. Ensure that payments are made in a timely and reliable manner. Agencies can examine whether payment delays are common for initial and/or ongoing payments—and if so, why. For example, are they caused by local agency practices or more structural or administrative problems?

3. Identify ways to simplify the enrollment and payment process. Agencies can examine the cumulative burden of initial enrollment and payment requirements, and assess the necessity of each requirement. The fact that a number of agencies had simplified forms and requirements suggests that these additional requirements may not, in fact, be necessary.

4. Maximize consistency across multiple agencies and programs. Subsidy agencies can assess whether providers in their jurisdictions are likely to be serving children from multiple agencies or programs. If so, then agencies can work together to develop consistent policies, procedures, and requirements to minimize the burden on providers. Having multiple agencies or programs is not necessarily a problem for providers, except when they must juggle different requirements.

5. Work toward clear communication and positive relationships between the agency and providers. Subsidy agencies can ensure that they communicate clearly with providers, and that providers know who to contact in case of questions or problems. Agencies can also examine their office practices to see whether providers are treated with respect. These issues are important components to helping providers function as partners in the subsidy system and to help them support parents.

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these strategies. In particular, a number of these strategies have cost implications. In a time of reduced funding, administrators will need to weigh these ideas against competing priorities and other goals—such as fiscal responsibility, preventing fraud, efficient operation, and administratively feasible policies—in determining how to allocate scarce resources. Nonetheless, this list provides a composite picture of some of the ways that states and localities might choose to identify and address challenges that may face providers.

1. Assess How the System Works from the Provider's Perspective

The first step in assessing any subsidy system around provider-related issues is to examine how it works from their perspective, and then to work backwards into identifying the causes of the problems uncovered and finding possible solutions.[64] In particular, it would be useful to ask the following overarching questions:

- From the providers' perspective, how easy or difficult is it to participate in the subsidy system? This can be assessed through periodic provider satisfaction surveys or focus groups, or an advisory group of providers, which can serve to identify unexpected challenges with accepting subsidies, as well as to identify promising practices that are supportive of child care providers.
- Where there appear to be challenges, where do they come from? State or local policy requirements? Local agency practices, implementation, or leadership? Agency resources? Individual caseworkers? Some combination of the above? Some problems do not necessarily have a single clear cause; as a consequence, it is essential to examine this question carefully to ensure that the root causes are addressed.
- Are these situations necessary from the agency's perspective? What alternatives can be implemented to better meet the needs of providers?

In examining the system from this perspective, it is important to realize that while in some ways providers and subsidy agencies may have different goals, in a number of places their goals or interests may overlap. For example, both administrators and providers may want to help eligible families stay on subsidies and minimize inadvertent terminations, or minimize the number of calls that caseworkers have to receive from providers. Identifying these areas of mutual interest can be important in developing ways of improving service delivery.

2. Examine Whether Subsidy Policies and Practices Follow Market Practices

This study makes it clear that what providers actually get paid is affected by the cumulative impact of several policies and practices. Subsidy agencies can examine their policies and practices around:

- At what percentage of the market do states set their rate ceilings and what approaches do states take in conducting market rate surveys.

- How differential rates are implemented, whether providers below the reimbursement ceilings can access these higher rates, whether providers know about these rates, and whether differential rate levels are sufficient to cover the cost of providing the care.
- Whether absent day policies reflect how providers charge private-paying parents.
- Whether policies about paying for part-time care reflect market practices.
- Whether reimbursement policies recognize special fees—such as registration and field trip fees—that providers may charge private-paying parents.
- Whether paying providers prospectively is feasible within the context of agency procedures around monitoring payments and fraud.
- Whether there is clear communication between the agency and providers about when payments are initially authorized and when they are terminated, to minimize the likelihood that providers unknowingly serve children during times they are ineligible. (Note the importance of both policy and practice in this situation, as there may be some sites where providers are supposed to be notified but do not actually receive the notification because of local agency implementation issues.)
- Whether subsidy agencies follow provider policies about giving providers advance notice before termination.

While subsidy agencies may not be able to address all these issues, it is useful to identify which of these policies has the most significant impact on the financial well-being of providers in particular localities, and which may cause providers to be reluctant to participate in the subsidy system.

3. Ensure that Payments Are Made in a Timely and Reliable Manner

Providers made it clear that delayed payments could create serious financial difficulties, particularly for smaller providers that were highly dependent upon the subsidy system. Some sites seemed to have more reliable payment systems and appeared to make prompt payments a high priority. Other sites seemed less efficient and reliable in this area and did not seem to place this issue as high on their priority list. Again, this is an area where there is potentially a significant difference between policy and practice, as it can depend significantly on local agency leadership and implementation. It can also be related to administrative issues as well as whether agencies have reliable information management systems. Agencies can examine whether payment delays are common for initial and/or ongoing payments in their site and what causes these delays when they occur.

4. Identify Ways to Simplify the Enrollment and Payment Process

Respondents discussed the importance of what they actually had to do to begin to serve a family receiving subsidy and to receive their regular subsidy payments. In

some sites they reported enrollment and payment processes that seemed relatively easy—for example, a single interaction or form to begin to serve a subsidized child, or a single attendance form for all of the children in the program. In other sites these processes seemed significantly more complicated—for example, separate forms for each child, parent signatures, or different forms from different agencies. It is useful to examine the cumulative burden of these requirements, and assess the necessity of each requirement. The fact that a number of agencies had simplified forms suggests that these additional requirements may not, in fact, be necessary.

5. Maximize Consistency across Multiple Agencies and Programs

Subsidy agencies can assess whether providers in their jurisdictions are likely to be serving children from multiple agencies or programs. If so, then agencies can work together to develop consistent policies, procedures, and requirements to minimize the burden on providers. Having multiple agencies or programs is not necessarily a problem for providers, except when it means they must juggle different requirements.

6. Work toward Clear Communication and Positive Relationships between the Agency and Providers

Our site visits suggest that clear communication and a positive relationship between the agency and provider is important for a number of reasons. First, such communication is essential to ensure that providers understand basic policies and practices, and that they know the status of the families they are serving. The importance of this issue is shown in the challenges that providers face when they do not know when a child is authorized and terminated, and end up serving the child without knowing that they will not be reimbursed. Second, such communication can help providers as they try to help parents navigate the system. Providers are far more likely to be able to help parents if they know such basic issues as when the parent's recertification date is, and who parents can call for assistance. Third, providers are more likely to want to serve subsidized children and to be able to help parents when they are treated with respect.

States appeared to have different approaches to the issue of client confidentiality, which may limit the type of relationship they can have with providers. However, subsidy agencies can examine their relationship with providers within the context of their policies, and then can take appropriate steps to ensure that they communicate clearly with providers, that providers are treated with respect, and that providers know who to contact in case of questions or problems. Some agencies can, for example, designate caseworkers to act as troubleshooters for any provider issues that arise or develop provider service centers where providers can ask questions (as is being experimented with in one site). Agencies also can develop strategies to gain input from providers about the subsidy system, such as through a provider advisory board. All these issues are essential components to helping providers function as partners in the subsidy system and to help them support parents. Furthermore, it is possible

that such communication could reduce administrative burden, if parents and providers are more knowledgeable about what to do and when to do it.

Opportunities and Challenges in Improving Provider Policies and Practices

In looking at how to implement the changes suggested above, it is useful to recognize that in some ways the child care subsidy system in the United States is in a stage of transition. Several factors, including the following, have shaped where the system is today, and present both opportunities and challenges for those who are interested in provider-related issues.

Insufficient Funding Levels to Meet Need for Services

One of the primary challenges to addressing these issues is that states are unable to provide subsidies to all eligible families (Adams and Rohacek 2002b), and—at the time this report was being written—states were facing cuts in funding for child care because of economic difficulties (Children's Defense Fund 2002; Neuberger 2002). If states were to address the issues raised in this paper, it would likely increase the amount of funds providers get for each child they serve. Without additional resources to address these issues, states are faced with having to reduce the number of families they can serve if they make significant improvements to provider-related policies.

However, it is also important to recognize that these issues can be addressed incrementally. For example, administrators can consider strategies to improve communication and internal processes first—such as having a designated staff person to deal with provider-related calls, testing to make sure that providers are actually getting notified about terminations and authorizations, and so forth. These strategies could have a significant impact on the well-being of providers, even though they would be only a first step in addressing provider-related issues. The challenge is, however, that improvements that have the biggest impact on providers' financial well-being, and therefore potentially on their willingness to serve subsidized children and the quality of care they can provide, will by definition have cost implications.

Improving Provider Policies Will Not Fix Larger Systemic Challenges

The current subsidy/voucher system is likely to help families access better quality care than they would be able to access without subsidies, as it gives families more resources to be able to purchase—if they can find it—higher quality care that can be more costly. The strategies discussed in this paper that move subsidy systems closer to market practices are likely to support parental choice in this way, in that parents would be more likely to be able to access a broader range of providers when subsidy policies follow market practices than when they do not.

But as it is currently designed, the subsidy system alone is unlikely to be able to address the larger challenges of the inadequate quality of child care overall, or the challenges facing low-income families. The voucher system is not designed to fundamentally address these issues. The bulk of the CCDF funds are administered through the voucher system, which is designed to help families better access what is in the existing market rather than to improve the overall market of care. While states must spend at least 4 percent of their CCDF funds on improving the quality and supply of care, this is a relatively small amount of funding compared with the total child care market that it is designed to affect. And research suggests that lower-income families may face particular constraints in finding good quality care (GAO 1997). Consequently, even with a voucher system, low-income parents are still limited by what is available in their communities, and current subsidy policies and funding strategies may do relatively little to improve existing options, or develop better options, in low-income areas. This suggests that policymakers interested in improving the quality of care available to low-income families may want to examine the strengths and weaknesses of the voucher system in terms of its ability to affect quality (see Adams and Rohacek 2002a), and examine other funding mechanisms (such as contracts) that may be more easily linked to quality.

States Have Significant Discretion in Addressing Provider-Related Policies and Practices

Despite challenges, it is important to recognize that states have the ability to address almost all of the issues highlighted in this report, as the statutory and regulatory provisions that govern the expenditure of CCDF and TANF dollars are silent about most of the administrative issues raised in this paper, with the exception of requirements to set payment rates at levels that meet the "equal access" provision. In both CCDF and TANF, a state can make changes to their processes with providers, as long as the state's policies are "reasonable." One clear proof of state flexibility in this area is the supportive policies and strategies that we highlighted throughout this study—while there were policies and practices that created challenges for providers, in every area there was usually at least one site (if not more) that had identified an easier alternative. The examples of more supportive practices make it clear that state and local subsidy agencies can balance their needs with those of providers.

On the other hand, while a number of our agency respondents appeared interested in improving the experiences of providers, there are some issues that make this challenging. First, and foremost, as described above, the issue of inadequate resources makes it particularly challenging for sites that wish to fundamentally alter their provider-related policies. Second, it is not clear that state or local subsidy agencies have had many formal incentives, resources, or forms of technical assistance[65] available for such efforts, though this may be shifting. The federal CCDBG/CCDF program is a block grant that has a relatively few requirements for states in this area, and—as discussed earlier—there has been relatively little research done on provider-related issues and policies. As a consequence, the extent to which states or localities have focused on providers has often been determined by state or local agency leadership, with relatively little external information or support.

A Decentralized System Creates Challenges and Opportunities

The child care system is relatively decentralized as a system and is privatized in many communities—as subsidies are often managed by CCR&R's and other nonprofit agencies at the local level. Our site visits illustrated both the strengths and weaknesses of this decentralized approach for those who are interested in making improvements to their subsidy system. On the one hand, providers can have significantly different experiences with the subsidy system, even if they live in the same city, depending on which agency they accept subsidies from. And it can be difficult to control local policies and implementation if there is a decentralized system. On the other hand, there are a wealth of different approaches to subsidy administration and provision at the local level. This can provide fertile ground for creative strategies and promising approaches, some of which were identified in this report. Furthermore, in those cases where services are contracted out to private agencies (such as CCR&R's and other local service contractors), it could—at least in theory—be somewhat easier for states to require a focus on provider-related issues given that these could be written into the subsidy contract.

Issues for Future Research

The research presented here takes an initial step in trying to better understand how subsidy policies and practices may affect child care providers and provides a preliminary framework for thinking about these issues. It also raises a number of important questions that should be examined in future research—many of which were not possible to examine with this research approach. Some issues to consider in future research include:

- **Who are child care providers?** The research presented in this paper highlights that there are many basic facts about child care providers that we do not know. For example, who does and does not participate in the subsidy system? What do we know about nonparticipating providers?
- **How do policies and practices affect providers' behavior?** While this research suggests that a host of subsidy policies and practices may affect the willingness of providers to serve subsidized children, the qualitative nature of this study does not allow us to assess the extent to which these issues truly play out in the behavior of providers across different communities. Additional research to examine this issue further would be valuable. For example, to what extent do these policies and practices ***actually*** affect whether providers participate in the subsidy system? What is the role of other factors—such as market segregation or unwillingness to serve low-income families—in affecting whether providers participate? Do voucher subsidy policies and practices interact with other programs (such as prekindergarten, Head Start, contracted child care subsidies, etc.) for individual providers, and if so, how? What policy strategies are localities using to address the needs of providers, and what is their impact?

- **To what extent do subsidy policies and practices affect quality of care?** This research suggests that subsidy policies and practices that affect how much providers receive in payment and when they receive these payments may ultimately affect the quality of care providers provide. These concerns raise a number of important questions for policymakers, and for future research. In particular, what is the relationship, if any, between these policies and practices and the quality of care that providers provide? Are there some policies that affect the extent to which families have access to existing higher-quality providers in the market—for example, differential rate policies? Are there policies that actually function to improve the quality of providers that are already in the subsidy system? Overall, what policy strategies seem to be effective at improving the quality of care for low-income families?
- **Do subsidy policies and practices affect different providers differently?** Our research suggests that how subsidy policies and practices affect providers may differ across different types of providers. Further research needs to be done to examine these questions. In particular, if these policies and practices do affect providers and their willingness to participate, does it vary across different types of providers? For example, for providers with alternative sources of funding (such as private paying parents), providers whose mission it is to serve low-income children, or providers that are heavily reliant upon subsidies and have few other sources of income? Kith and kin providers are likely to face overlapping, but different issues in interacting with the subsidy system. What are the additional factors that might affect their participation, and how do they experience subsidies? Knowing more about whether these issues play out differently for different providers would allow policymakers to develop targeted strategies that are likely to be more effective.

Current research underway at the Urban Institute is working to examine a number of these questions.

Conclusions

When looking across all of the issues highlighted in this study, it is clear that there are a host of provider-related policies and practices that can affect how much providers are actually paid if they serve subsidized children, and the experience they have with the system. These all work together to affect providers, and are likely to shape whether providers are willing and able to participate in the system, as well as to affect the financial well-being and stability of providers who do participate. As a consequence, it is important to examine the entire range of policies, and how they are implemented, when looking at the federal requirement of ensuring that subsidized children have equal access to a range of child care options as do nonsubsidized children. These issues are of particular importance given the ongoing interest in supporting low-income parents as they become established in the workforce and the current focus on the development and literacy of low-income children. While funding levels present challenges to policymakers interested in improving provider-related policies, this report suggests that there are a range of steps that can be taken to better support child care providers.

Appendix 1
Study Methodology

This research was part of the case study/policy research component of the Urban Institute's *Assessing the New Federalism* (ANF) project. This study uses a comparative, case-study design to explore the implementation of state child care subsidy programs in the aftermath of national welfare reform. Data were collected from 17 sites in 12 of the 13 ANF states from June 1999 to March 2000.[67] These states were chosen for the larger ANF study because they both include a large proportion of the nation's population and represent a range of geography, fiscal capacity, citizens' needs and traditions of providing government services. These states also contain over 50 percent of the U.S. population and, thus, represent the social services provision encountered by most Americans. The Urban Institute also gathered data about child care subsidy systems in these same states during late 1996 and early 1997 (Long et al. 1998).

Because many of the issues we were examining were affected by how subsidy policies were implemented at the local level, the research team focused on 1–3 local sites within these states.[68] Data were collected through interviews, focus groups, and document analysis. To improve the validity of our conclusions, we triangulated key research questions by asking them of different actors within each state. Eight semi-structured interview and focus group protocols were used to standardize data collection across these implementation actors and across specific state contexts. These protocols explored many topics, including subsidy policies (including parental fees and payment rates), the processes involved in receiving subsidies (including those related to the payment process), and how these processes and policies were experienced by caseworkers, families, and child care providers.

In each state, the state administrator of subsidized child care programs and a state-level policy advocate participated in telephone interviews, which were tape recorded to improve accuracy. In states with multiple subsidized child care programs, all administrators were interviewed. In total, 14 senior administrators and 12 policy advocates were interviewed.

In each local site, the research teams conducted face-to-face interviews with the senior manager responsible for the delivery of child care programs, and in most cases a nongovernmental respondent who did not directly participate in subsidy administration. We also interviewed multiple local administrators in sites (e.g., Minneapolis and New York City) where separate agencies handled subsidies for TANF and non-TANF families. Interviews were also conducted with additional governmental respondents in sites where there were local agencies involved in some policy aspects of the subsidy program, though they did not directly administer the program. For example, in El Paso and Houston we also interviewed members of the local workforce boards since the boards determine subsidy policies. In the end,

18 local administrators and 15 key respondents participated. Teams of two researchers conducted and audio recorded these interviews to improve the reliability of information recording.

To understand more about the local implementation of the program and its effect on families and the child care market, the research team also conducted focus groups with:

- **Parents receiving subsidies.** The research team conducted focus groups with parents receiving subsidies in each site. Usually the team conducted two focus groups—one with parents receiving cash assistance and one with parents not on cash assistance. We conducted a total of 33 parent focus groups and spoke with a total of approximately 200 parents receiving subsidies across the 17 sites.
- **Subsidy caseworkers.** Focus groups were also held with child care subsidy caseworkers. Again, separate caseworker focus groups were conducted in sites where one set of caseworkers handled only families receiving cash assistance and another set handled families not receiving cash assistance. The research team conducted a total of 27 caseworker focus groups and spoke with roughly 190 caseworkers across the 17 sites.
- **Providers.** The research team conducted one focus group with providers in almost all sites except New York City, where separate focus groups were conducted for voucher and contracted providers. The research team conducted a total of 18 child care provider focus groups and spoke with roughly 150 child care providers across the 17 sites.

Focus group participants were recruited by local nonprofit organizations according to uniform selection criteria provided by the research team. At all parent focus groups and the majority of provider focus groups the research team furnished food and additional compensation as an incentive to participate. While diverse nonprofits assisted in participant recruitment, which minimized the likelihood of systematic bias across sites, the organizations were more likely to be aware of formalized child care settings. As a result, our parent and provider focus groups more often reflected center-based or family child care settings than relative or in-home care, so the unique challenges and perspectives of the less formal parts of the child care market are underrepresented.

When each research team left each local site, they consulted tapes and notes to create detailed interview and focus group notes. They also compiled summary memos that integrated themes and issues about the daily operations of the subsidized child care system at that site. Senior researchers reviewed these notes and memos and held case analysis meetings to clarify ambiguity and explore emerging issues. These meetings improved the clarity of data recording and enhanced intra-case reliability.

In addition to the collection of primary data, this study draws upon existing sources of information. For one, policy and administrative reports written by state administrative agencies, advocacy groups and service providing agencies were used. In some cases, these sources provided important context for the research team before

they went on site. In other instances, these documents were actually entered into the project database for analysis.

This study also benefited from other national studies of state child care subsidy systems. Information from the National Study of Child Care for Low Income Families (being conducted by the National Center for Children in Poverty and Abt Associates) was incorporated during data collection and data analysis stages, to improve the accuracy of the findings.

To assist with the analysis of the qualitative data gathered in this study, the research team used QSR NUD*IST computer software. This software allows for the development of both deductive and inductive coding and for the modification of coding categories as the analysis proceeds. Collaboratively, the research team developed the coding structure based on important issues observed in data collection and pressing policy and implementation concerns. Two members of the research team applied initial codes and checked reliability, to allow for systematic applications of codes to the entire database. Following this initial process, several members of the team did subsequent analysis on particular topics and wrote sections of reports resulting from this project.

Appendix 2
Provider Focus Group Participants

We conducted focus groups with approximately 150 providers across our 17 sites. Before each focus group, we asked participants to fill out a form that asked a number of their characteristics, including what type of provider they were (center, family child care, relative), how long they had been a provider, the percentage of children in their care that were receiving subsidies, and how long they had been serving children receiving subsidies. While roughly 30 of the participants did not fully complete these forms, we were able to get a basic understanding of who participated in our focus groups.

In particular, providers in our focus groups were generally either center-based providers or family child care providers, who had been providing care for a number of years. Many of these providers were predominantly serving children receiving subsidies and more than half had been accepting subsidies for more than six years.

The table below provides more details about the providers in our focus groups.

Characteristics of Provider Focus Group Participants	
Type of Provider[a]	
Centers	49%
Family Child Care	49%
Relative	3%
How Long Participant Has Been a Provider	
0–2 years	13%
3–5 years	21%
6–10 years	26%
Over 10 years	41%
Percentage of Children Currently Receiving Subsidies	
0–24%	8%
25–49%	16%
50–74%	18%
75–100%	58%
How Long Provider Has Accepted Subsidies	
0–2 years	20%
3–5 years	22%
6–10 years	28%
Over 10 years	30%

a. Percentages do not add up to 100 because of rounding.

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Appendix 3
How Much a Hypothetical Provider Receives under Three Scenarios

PRIVATE PAY		BETTER SCENARIO		WORSE SCENARIO	
MONTH 1					
program fee	$445	program fee—state	$—	program fee—state	$—
		program fee—parent	$60	program fee—parent	$60
registration fee	$65	registration fee—state	$—	registration fee—parent	$65
	$510		$60		$125
		difference (private pay and scenario)	*-$450*	*difference (private pay and scenario)*	*-$385*
cumulative total received	*$510*	*cumulative total received*	*$60*	*cumulative total received*	*$125*
MONTH 2					
		state payment for month 1—program fee	$385	state payment for month 1—delayed	$—
		state payment for month 1—registration fee	$65		
program fee	$445	program fee month 2—parent	$60	program fee month 2— parent	$60
field trip fee	$10	field trip fee—state	$—	field trip—parent can't afford	$—
	$455		$510		$60
		difference (private pay and scenario)	*$55*	*difference (private pay and scenario)*	*-$395*
cumulative total received	*$965*	*cumulative total received*	*$570*	*cumulative total received*	*$185*
MONTH 3					
		state payment for month 2—program fee	$385	state payment month 1 and 2—program fee	$770
		state payment for month 2—field trip fee	$10		
program fee	$445	program fee month 3—parent	$60	program fee month 3—parent	$60
	$445		$455		$830
		difference (private pay and scenario)	*$10*	*difference (private pay and scenario)*	*$385*
cumulative total received	*$1,410*	*cumulative total received*	*$1,025*	*cumulative total received*	*$1,015*
MONTH 4					
		state payment for month 3—program fee	$385	state payment for month 3—program fee (minus two absent days not paid for)	$350
		program fee month 4 (half month)—parent portion, can't afford	$—	program fee month 4 (half month)—parent portion, can't afford	$—
program fee	$445	program fee—new parent starts with program for 2 weeks	$222		
registration fee—new parent	$65	registration fee —new parent	$65		
	$510		$672		$350
		difference (private pay and scenario)	*$162*	*difference (private pay and scenario)*	*-$160*
cumulative total received	*$1,920*	*cumulative total received*	*$1,697*	*cumulative total received*	*$1,365*
MONTH 5					
		state payment for month 4 (2 weeks)—program fee	$193	state payment for month 4 (2 weeks)—program fee	$193
		back payment of copayments—parent pays	$30		
program fee	$445	program fee month 5—new parent	$445	program fee month 5—parent does not pay, slot open for 2 weeks	$—
	$445		$668		$193
		difference (private pay and scenario)	*$223*	*difference (private pay and scenario)*	*-$253*
cumulative total received	*$2,365*	*cumulative total received*	*$2,365*	*cumulative total received*	*$1,558*
total difference (private pay and scenario)	—	*total difference (private pay and scenario)*	—	*total difference (private pay and scenario)*	*$(808)*

Source: The Urban Institute.

Note: In the private-pay and better scenario, the provider receives a second registration fee within the five-month period because a new child starts receiving care during that period. However, in the worse scenario, the provider has not yet filled the open slot so they have not yet received the additional $65 registration fee. As a consequence, $65 of the $808 loss seen in the worse scenario will be eliminated when the provider receives the registration fee from the new parent.

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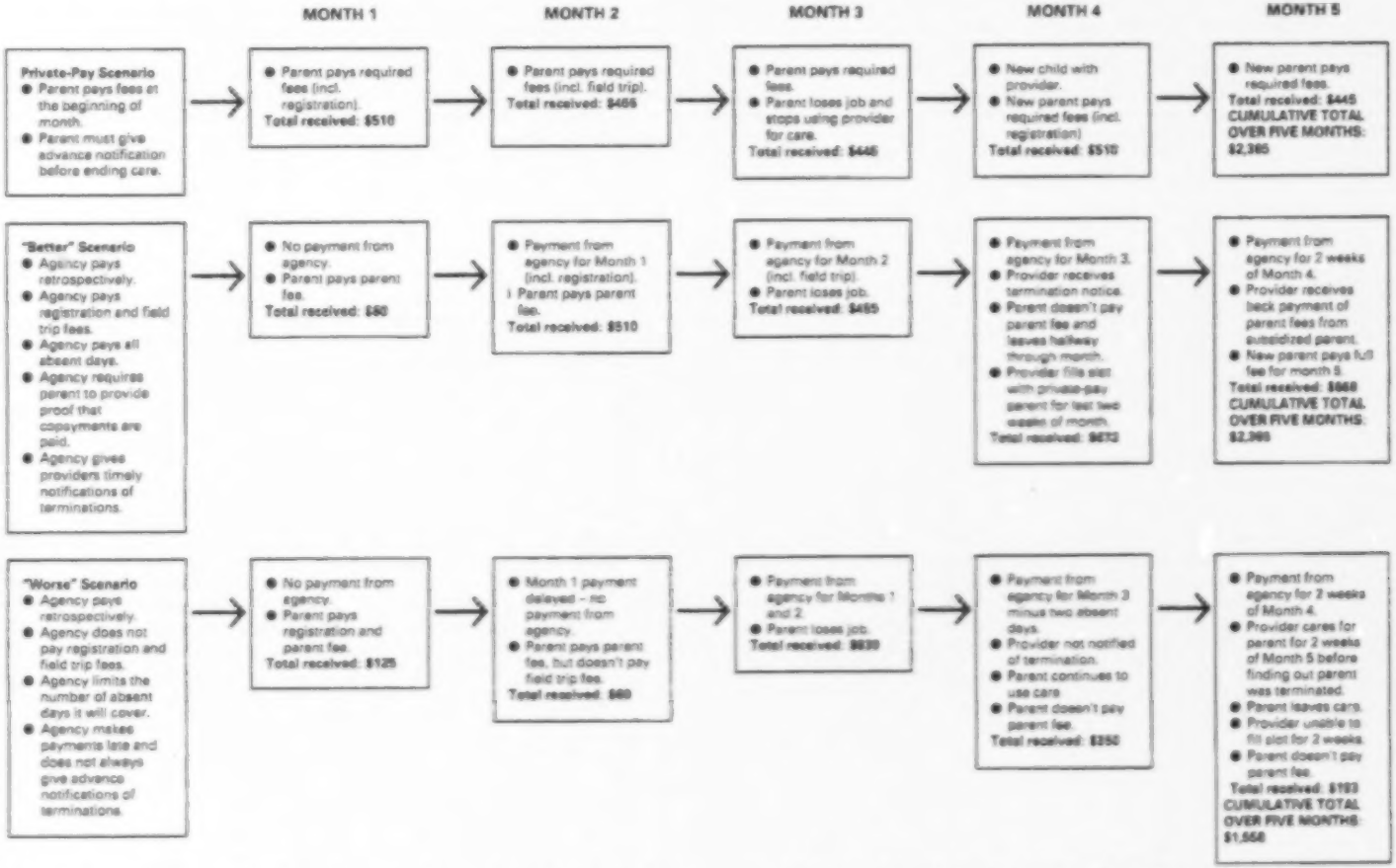
Parent's Experience: Parent enrolls her child in the provider's program. In the "better" and "worse" scenario, the parent begins to receive subsidies at the same time she starts her child with the provider. In Month 3, the parent's child is sick for 6 days. Halfway through Month 3, the parent loses her job. In the "better" and "worse" scenario, parent gets two weeks of job search, but is unable to find a job. She is terminated from the subsidy program halfway through Month 4 after receiving a two weeks of advance notice of termination.

Provider's Fees: The provider charges $445/month. The provider has a one-time initial registration fee of $65 and a $10 field trip fee whenever there is a field trip.


MONTH 1
MONTH 2
MONTH 3
MONTH 4
MONTH 5
Private-Pay Scenario
● Parent pays fees at the beginning of month.
● Parent must give advance notification before ending care.
● Parent pays required fees (incl. registration).
Total received: $510
● Parent pays required fees (incl. field trip).
Total received: $455
● Parent pays required fees.
● Parent loses job and stops using provider for care.
Total received: $445
● New child with provider.
● New parent pays required fees (incl. registration)
Total received: $510
● New parent pays required fees.
Total received: $445
CUMULATIVE TOTAL OVER FIVE MONTHS: $2,365
"Better" Scenario
● Agency pays retrospectively.
● Agency pays registration and field trip fees.
● Agency pays all absent days.
● Agency requires parent to provide proof that copayments are paid.
● Agency gives providers timely notifications of terminations.
● No payment from agency.
● Parent pays parent fee.
Total received: $60
● Payment from agency for Month 1 (incl. registration).
● Parent pays parent fee.
Total received: $510
● Payment from agency for Month 2 (incl. field trip).
● Parent loses job.
Total received: $455
● Payment from agency for Month 3.
● Provider receives termination notice.
● Parent doesn't pay parent fee and leaves halfway through month.
● Provider fills slot with private-pay parent for last two weeks of month.
Total received: $673
● Payment from agency for 2 weeks of Month 4.
● Provider receives back payment of parent fees from subsidized parent.
● New parent pays full fee for month 5
Total received: $868
CUMULATIVE TOTAL OVER FIVE MONTHS: $2,369
"Worse" Scenario
● Agency pays retrospectively.
● Agency does not pay registration and field trip fees.
● Agency limits the number of absent days it will cover.
● Agency makes payments late and does not always give advance notifications of terminations.
● No payment from agency.
● Parent pays registration and parent fee.
Total received: $125
● Month 1 payment delayed – no payment from agency.
● Parent pays parent fee, but doesn't pay field trip fee.
Total received: $60
● Payment from agency for Months 1 and 2.
● Parent loses job.
Total received: $830
● Payment from agency for Month 3 minus two absent days.
● Provider not notified of termination.
● Parent continues to use care.
● Parent doesn't pay parent fee.
Total received: $350
● Payment from agency for 2 weeks of Month 4.
● Provider cares for parent for 2 weeks of Month 5 before finding out parent was terminated.
● Parent leaves care.
● Provider unable to fill slot for 2 weeks.
● Parent doesn't pay parent fee.
Total received: $193
CUMULATIVE TOTAL OVER FIVE MONTHS: $1,558

Note that in the private-pay and "better" scenario, the provider receives a second registration fee within the five-month period because a new child starts receiving care during that period of time. However, in the "worse" scenario, the provider has not yet filled the open slot so he or she has not yet received the additional $65 registration fee. As a consequence, $65 of the $808 loss seen in the "worse" scenario will be eliminated when the provider receives the registration fee from the new parent.

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Notes

1. These issues will be examined more in a new multistate study by the Urban Institute examining the characteristics of child care providers that participate in the subsidy system versus those that do not, and the role that subsidy policies and practices play in affecting the willingness and ability of providers to participate in the subsidy system.
2. In FFY 2000, 83 percent of children receiving CCDF funds were served through vouchers (HHS 2002).
3. Vouchers can be used in settings that are exempt from licensing standards. Generally, most states require centers and larger family child care homes to be licensed, while smaller family child care homes (depending on the state), relatives, and in-home caregivers are exempt from licensing.
4. Many states set parent fees as a percent of the parent's income, though some states set them as a percent of the cost of care, with the percent rising as the parent's income rises.
5. Child Care and Development Fund Final Rule, Section 98.43.
6. Specifically, the preamble to the CCDF Final Rule states, "A system of child care payments that does not reflect the realities of the market makes it economically infeasible for many providers to serve low-income children—undermining the statutory and regulatory requirements of equal access and parental choice" (p. 39958, CCDF Final Rule).
7. Where we know that a policy or practice has changed, we note this in the report.
8. At the time of our site visits, eight of the 12 states had waiting lists of eligible parents that could not be served because of inadequate funds. These states were Alabama, California, Florida, Massachusetts, Minnesota, New Jersey, New York, and Texas.
9. The larger team of researchers includes the authors, as well as James Barsimantov, Jeffrey Capizzano, Patricia McMahon, Deborah Montgomery, Jodi Sandfort, Stefanie Schmidt, and Freya Sonenstein.
10. Because of the limitations of time, we primarily examined the operation of state subsidy programs that operated through vouchers at the local level. This was not an issue in most states, but did affect our ability to get a complete picture of the experiences of providers in the California sites, Jersey City, New York City, and Boston—all of which provided subsidies through traditional contracts as well as vouchers. As a consequence, this report provides insights into the issues that providers in the voucher subsidy system face—which, depending upon the site, may not be the whole picture.
11. See Adams and Rohacek (forthcoming) for more discussion of issues around ensuring that families receiving subsidies have access to good quality care.
12. The CCDF regulations generally suggest that voucher payments should be equivalent to what is charged in the larger child care market (though they do suggest there may be permissible exceptions) and some states have specific rules that prevent providers from being paid more than they charge private-paying parents.
13. States also can vary fees by other criteria, such as family size.
14. As of March 2000, three of our ANF states (California, Massachusetts, and Minnesota) exempted families with incomes below 50 percent of the federal poverty level from paying any fees (Schulman et al. 2001). The subsidy agency would pay the full reimbursement rate for these families.
15. The state may allow localities to determine this policy, but by and large the state determined rates in the ANF states (Colorado is the exception).
16. Local Workforce Development Boards could set their own maximum reimbursement rates as of September 1, 1999.
17. We do not have information about where the maximum reimbursement rate level is set in Denver.
18. In all of the states, except Colorado, the differential rate policies were determined at the state level. In New York, although the state had developed a differential rate policy, localities had the option (but were not required) to implement this policy.
19. Florida, Minnesota, New Jersey, Texas, and Wisconsin.
20. The designated vendor program is now called the Texas Rising Star program.
21. California and Washington. Washington also had a one-time bonus when a provider started caring for an infant receiving subsidies. In addition, though not in the sites we visited, some other local workforce boards appeared to have such rates in Texas.
22. In New York, localities had the option (but were not required) to offer differential rates for accredited care and nontraditional hours care. In Colorado, offering differential rates was a county decision. Denver did have higher rates for mildly ill care and nontraditional hour care.

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23. Although Massachusetts did not provide differential rates, respondents reported that the state gave cash awards for one time staff salary incentives to programs which implemented activities to increase quality services to families (including services for children with disabilities), providers (staff training), or improvements in public referrals.
24. Some providers in Denver also worried that the demand for special care was "hit or miss" (meaning that some families are irregular in their need for it).
25. For example, most of the budget of a child care program is labor costs—and providers cannot reduce their staff simply because a child is sick.
26. California, Colorado, Minnesota, New York, and Texas.
27. Alabama, Florida, New Jersey, and Washington allowed between 4 and 5 absent days per month. In Michigan, providers were reimbursed for up to two consecutive weeks if the child was absent due to illness or a state holiday. Massachusetts covered 10 days of excused absences and 3 days of unexcused absences per month. Wisconsin covered almost all absent days.
28. Registration fees were covered by the state in Alabama, California, Massachusetts, Minnesota, New Jersey (TANF families only), New York, Texas, Washington, and Wisconsin. Field trips were covered by the state in Minnesota and Washington.
29. In at least one site, these additional fees were paid incrementally over a period of time as part of the subsidy payment rather than in one lump sum.
30. More recent Urban Institute research indicates that subsidy agencies vary in the approach used to determine the number of hours of care for which a parent is authorized—for example, authorizing subsidies on an hourly basis or a full-time/part-time basis.
31. A respondent in Massachusetts noted that the state agency increased reimbursement for part-time care to 70 percent of the full rate to reimburse providers for the increasing number of part-time places being used by primarily TANF recipients.
32. For more information on the application process from the parent's perspective, see Adams et al. 2002.
33. In both of these sites, there were multiple agencies that administered subsidies. It was not clear if giving verbal authorizations was a policy for all of the agencies in these sites. For example, giving providers verbal authorizations is not a policy of at least one of the two agency units—the Day Care Unit—that manage subsidies in Buffalo.
34. This is true for families (such as TANF families or protective services cases) that have already been determined eligible for subsidies and have a referral from the Department of Human Resources to receive care. The subsidy agency will pay for the care once the provider has registered and submitted enrollment verification.
35. A similar issue is if providers are unaware that the parent is going to stop using the provider. If parents leave the provider without any notice, it can mean that providers will have an empty slot for which they are receiving no payment. Many sites required parents to give advance notice to the provider if they were leaving. Some subsidy agencies also reported covering some of these days through absent days when a parent left without prior notice. For example, in Houston, providers can be paid for five days of absence when there has been no contact from the parent, if they report it on the 5th day to the caseworker. Similarly, in Seattle it is an accepted practice to use five absence days to help compensate a provider if a consumer leaves their facility with inadequate notice. In addition, Massachusetts reimbursed providers for up to two weeks when a child left without prior notice.
36. Respondents in all sites where we collected data on this issue reported that termination notices were sent to providers. We did not collect data on this issue in Buffalo.
37. As was done, for example, in Birmingham, Milwaukee, and Tampa.
38. The terms parent fee and copayment are usually used interchangeable to mean the portion of the provider's rates that the parent must pay as determined by the sliding fee scale. However, in California, the term copayment means the portion of the provider rate that exceeds the maximum reimbursement rate that the parent would have to pay if they wanted to use that provider.
39. In all the ANF states (with the exception of Texas), the sliding fee scale policies are set at the state level. In Texas, local workforce boards are given the power to set parent fee policies. However, in New York the state sets the basic parent fee formula, but the local districts has some flexibility within that formula.
40. States have flexibility in how they set their sliding fee scales. However, the preamble to the CCDF final rule suggests that parents fees equivalent to no more than ten percent of a family's income would help ensure equal access.
41. Miami, Tampa, Jersey City, and El Paso. In Houston, parents not on TANF did not need to show written proof that they had paid all their parent fees. However, caseworkers reportedly would call providers to

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check the parent fee payment status. Some providers in these sites noted that this was a helpful policy to have in place, as long as it was enforced—though it did not help in cases where the parent was terminated from the subsidy system.

42. This provider was a "contracted" provider, which meant that they had a contract with the subsidy agency that they would meet certain standards. Contracted providers could not receive payment for field trips from the subsidy agency, though voucher providers could.
43. In five ANF states, at least some of these decisions were made by counties or local agencies. In Minnesota and New York, counties made the decisions about who to pay for all types of providers, while in California, Colorado, and Florida counties (or local agencies, in the case of California) made decisions for only some types of providers.
44. In Miami, the subsidy agency paid the parent directly when they used regular vouchers.
45. Before our site visits, El Paso and Houston also paid the parent when the parent used "self-arranged" care (i.e., unlicensed providers or providers that did not participate in the designated vendor program). At the time of our site visits, however, this method of payment was being phased out so self-arranged providers were paid by the subsidy agency directly.
46. This departmental unit provided subsidies to TANF families. The unit that handled families not receiving TANF always paid the provider.
47. Respondents in Los Angeles, Oakland, Tampa, and Colorado discussed the fact that they used to pay the parent. El Paso and Houston were phasing out this method of payment at the time of our site visits. New York City's Human Resources Agency (the agency that handles vouchers for TANF families) also was reportedly going to phase out paying the parent.
48. In El Paso and Houston, the parent would let the caseworker know the provider they wanted to use. The caseworker would then contact the provider by phone and then follow-up with a written authorization by mail.
49. Providers receiving vouchers need to fill out a separate form for each child, but center-based contracted providers fill out one form for all children.
50. At the time of our site visits, San Diego was in the process of implementing a redesign of the payment system. The three agencies administering subsidies meet monthly to align their policies and practices.
51. In Jersey City, the non-TANF subsidy program (New Jersey Cares for Kids) paid providers prospectively, while the TANF subsidy program (Work First Child Care) paid retrospectively. In Buffalo, the unit that handled subsidies for TANF families paid prospectively, while the unit that handled subsidies for non-TANF families paid retrospectively. States with contracts also likely pay prospectively for their contracted child care program—for example, Boston allowed their contracted providers to choose to be paid prospectively, while the providers receiving vouchers were paid retrospectively.
52. These sites were Birmingham, Los Angeles, Oakland, Denver, Miami, Tampa, Boston, Jersey City, and Seattle.
53. Subsidy agencies in Buffalo, El Paso, Milwaukee, and Detroit paid all providers every two weeks. In Houston, providers are paid twice monthly (though providers are given an option to be paid once a month). In Minneapolis, center-based providers were paid monthly, while family child care providers were paid every two weeks. In New York City, the Human Resources Agency (which administers the voucher program for TANF families) pays every two weeks, while the Agency for Child Development (which administers the voucher program for non-TANF families and the contracted program) pays every month. In San Diego one of the three agencies administering subsidies sends out checks every two weeks, while the other two send out checks monthly.
54. These coordination issues are being examined in more detail in a current Urban Institute project exploring the interconnections between the TANF and child care systems.
55. Providers and parents, for example, in Los Angeles, San Diego, Oakland, Detroit, Minneapolis, and New York City discussed these issues.
56. The local agency reports that this process has improved providers experiences with billing and payment, as well as helped providers reduce tension with the family over payment.
57. Los Angeles, Oakland, San Diego, Denver, Boston, Minneapolis, Jersey City, New York City, and Seattle.
58. Los Angeles, San Diego, Oakland, Minneapolis, Buffalo, and New York City. While the multiple units administering subsidies in Buffalo were part of the same larger agency, these units operated separately—with different staff and payment policies.
59. In all of these cases, the agencies were not strictly divided by TANF and non-TANF families. For example, in Minneapolis one agency dealt with a mix of TANF and non-TANF families, while the other agency dealt with only non-TANF families.

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60. Los Angeles, San Diego, Oakland, Seattle, and Milwaukee.
61. These issues are described in more depth in the companion paper about parents (*Getting and Retaining Child Care Assistance: How Policy and Practice Influence Parents' Experiences*).
62. Birmingham, Denver, Miami, Boston, Detroit, Minneapolis, Jersey City, Buffalo, El Paso, and Seattle.
63. Note that in calculating this figure we have included the $65 that the provider will receive for the new parent that starts in month 6 in order to comparable across the three scenarios.
64. The technique (called "backward mapping") has proven an effective strategy in assessing social service systems (Elmore 1979).
65. The establishment of the Child Care Bureau in the U.S. Department of Health and Human Services, and the expansion of technical assistance activities in recent years has provided a venue through which state and local subsidy administrators can access technical assistance and support on how to address administrative, structural, and infrastructure issues in providing subsidies.
66. This section was largely written by Jodi Sandfort and originally appeared in Adams et al. 2002.
67. The sites/states were Alabama (Birmingham), California (Los Angeles, Oakland, San Diego), Colorado (Denver), Florida (Miami and Tampa), Massachusetts (Boston), Michigan (Detroit), Minnesota (Minneapolis), New Jersey (Jersey City), New York (Buffalo and New York City), Texas (El Paso and Houston), Washington (Seattle), and Wisconsin (Milwaukee). Mississippi, an ANF state, was not included in the second round of case studies.
68. Multiple localities were investigated in California, Florida, New York, and Texas because of the size of these states.

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GAO. See U.S. General Accounting Office.

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